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Abstract

The (de)regulation agenda of the Conservative government, led by Margaret Thatcher, and elected in 1979, is an important change point that has attracted only limited attention from management and historical research scholars. Thus, how (de)regulation in this era influenced the evolution of product design remains ripe for exploration. In this paper, we examine the UK individual personal pensions product market between the mid-1980s and mid-1990s to examine the relationship between (de)regulation – an industry level factor – and its impact on architectural choices of product design – a product level factor. We adopt a retrospective, oral history research design to give voice to participants with first-hand product development experience of the change period, and find that (de)regulation reforms and the context of the financialization of product markets came to define how products were then designed, evolving product design from non-modular to near-modular, a trajectory that arguably continues until the present day.

Keywords: Individual Personal Pensions; Modularity; Deregulation; Margaret Thatcher

Introduction

The (de)regulatory[1] agenda of the Conservative government elected in 1979, led by Margaret Thatcher, is, we suggest, an underexplored example of the 'financialization' of financial services product markets that occurred in the UK in the 1980s (occurring broadly at the same time as similar reforms in the US and across Europe, see for example Dixson & Sorsa, 2009; Krippner, 2012; Langley, 2004; 2007; and van der Zwan, 2014). In this paper, we focus specifically on the relationship between the (de)regulation agenda and the modularisation of UK individual personal pensions. The individual personal pensions regime was implemented in 1988, following embodiment in the Social Security Act, 1986, and we argue that these events represent an important change event in the development of the wider UK pensions market, bringing to the fore the ideas of individual and personal control and responsibility for retirement provision[2].

Government policy and (de)regulation has significantly influenced the UK pensions market over the last century (Hannah, 1986). From a management history perspective, the wider UK pensions product market has received only limited attention. For example, Hannah (1986) examines the development of UK occupational pensions, and Moss (2000) charts the history of Standard Life, a Scottish insurance company and a major player in UK financial services product provision. Beyond the UK, other studies have focused on the development of pensions markets in the US (Ghilarducci, 1992; 2008), Western Europe (Hyde, Dixson and Drover, 2003) and in Central and Eastern Europe (Muller, Ryll and Wagener, 1999). Furthermore, scholars have also examined related product markets such as asset management (ie, Moorcroft, 2017), an important development in the story of individual personal pensions. In the UK, Hannah's seminal book on the development of occupational pensions in Britain was published in 1986, before the implementation date of individual personal pensions and the Financial Services Act, 1986, in 1988, and Moorcroft's history of asset management concludes in 1960. Thus, the development of the UK individual personal pensions product market – which we define as *non-occupational, voluntary, personal pension contracts offered by the private sector* - and how it was 'carved out' from the occupational pensions regime, in

[1] We use the phrase (de)regulation to signify that the reforms of the period have been argued to be both deregulatory and regulatory. For a discussion, see Booth (2015) or Berlinski (2011)

[2] For example, article by Jonathan Stapleton (2015) in Professional Pensions, https://www.professionalpensions.com/professional-pensions/feature/2261768/how-thatchers-governments-changed-pensions

the aftermath of the election of UK Prime Minister Margaret Thatcher in 1979, remains remarkably underexplored.

Unlike prior contributions to the study of UK pensions, we examine the change period from the mid-1980s to the mid-1990s in order to examine the relationship between the (de)regulation agenda and subsequent changes to individual personal pensions product design. Our main argument is that the (de)regulation agenda of the period – and the macro-environmental context of the 'financialization' of markets (Krippner, 2012) - set in train 'modularising' processes that influenced product design - processes that arguably continue until the present day. Thus, we are specifically concerned with the relationship between the (de)regulation of individual personal pensions (as an industry level variable) and its effects on product design (a product level variable), and we draw primarily upon the modularity literature as a theoretical lens for our analysis (ie, Sanchez & Mahoney, 1996; Schilling, 2000).

Modularity is a design characteristic of a system, based upon the notion of partitioning a system into simpler sub-systems or components (Simon, 1962, von Hippel, 1990). Modularity is a feature common to some product markets, such as motor vehicles (MacDuffie, 2013), bicycles (Galvin & Morkel, 2001); air-conditioning systems (Furlan, Cabigiosu & Camuffo, 2014) and stereo systems (Langlois & Robertson, 1992). The design characteristic that lies at the heart of modularity is greater interdependence within components than across different components (Ulrich, 1995). In perfect form, modularity facilitates a one-to-one mapping between product functions and product components (Ulrich, 1995), as long as there is a defined, standardised interface that can connect components together. Interface standardisation, whether emergent between firms in an industry or enforced by regulation or some other external body (ie, a Standards Setting Organisation such as ISO), is arguably the key design characteristic of modular systems (Sanchez, 2008; Sanchez & Mahoney, 1996). Standardised interfaces often help increase component variety because it allows for easier substitution (Sanchez, 1995) and permits easier mixing and matching of components to give a potentially large number of product variations (Sanchez & Mahoney, 1996; 2013; Schilling, 2000), which may be a source of strategic advantage (Sanchez, 1995).

As a general systems theory (Schilling, 2000), modularity has often been researched as a static, cross-sectional property of organisational systems, such as industries, organisations and products (see for example Campagnolo & Camuffo, 2012, for a literature review). In contrast, we follow scholars such as Burton and Galvin (2016) and Sanchez (2008) to conceptualise modularity as a dynamic systemic phenomenon. In other words, organisational systems, in our case products, can either evolve towards being more or less modular over time. Furthermore, modularity scholars have largely ignored 'intangible' products such as pensions, instead emphasising (almost exclusively) manufacturing industries such as motor vehicles (MacDuffie, 2013, Takeishi, 2002; Takeishi & Fujimoto, 2003), IT (Funk, 2008), and air-conditioning systems (Furlan, Cabigiosu & Camuffo, 2014).

We proceed as follows: (i) we chart the key developments in political, legislative and regulatory changes that preceded the election of the Conservative government in 1979, (ii) we outline the key (de)regulatory reforms of the Thatcher-led Conservative government, (iii) we then discuss our research method, (iv) our findings, and (v) and offer a discussion and some concluding remarks.

From Beveridge to Thatcher

Although the focus of this paper is the UK individual personal pensions market between the mid-1980s and mid-1990s, we begin by charting the key political and legislative milestones of the occupational and state pensions markets. Perhaps one of the most important milestones in the provision of state pensions in the UK was the Beveridge White Paper, *Social Insurance and Allied Services,* published in 1942. The plan, according to Beveridge, was to "…secure income for subsistence on condition of service and contribution and in order to make and keep men fit for service…*the plan leaves room and encouragement to all individuals to win for themselves something above the national minimum".* (p170, added emphasis). Of central importance to Beveridge was the ideal of universalism of both contribution and benefit, the eradication of poverty, and nationalisation of assurance companies (Beveridge, 1942). Beveridge proposed a flat-rate state-administered pension adequate to meet the subsistence requirements of workers.

In 1942, Beveridge's ideas were well-received by the then opposition Labour Party (who later formed the social-reforming post-war government in 1945). However, by the time many of the proposals were embodied in the National Insurance Act 1946 (which came into force in 1948), both the level of pension benefits and the concept of universality[3] was already under pressure. The Conservative Party had criticised the proposals from the start, with opposition to the idea of universalism and a belief in better targeting of benefits to those in need. By 1948, however, growing concerns over an ageing population, and its long-term impacts on the Treasury, had already began to be voiced (Thane, 2000), and post-war reconstruction costs put additional pressure on social security spending. Thus, in various stages, contributions to the national insurance scheme increased and benefits fell (Thane, 2000). As the population aged, and the 'middle classes' became entitled to qualify for state pensions in the late-1950's[4], it was becoming evident that rising state pension costs would have to be offset by progressively graduated contributions, much like income tax, since an increasing flat-rate contribution would over-burden the less well-off. In the mid-1950s, Richard Titmuss[5] was critical of both occupational pensions and the flat-rate contributory state system at a time when the income tax system was becoming more progressive. His proposed solution was a graduated contributory scheme, however the contributions would not be linked to benefits, maintaining a redistributive effect. The typical guaranteed pension benefits would be half of final salary, which had the result of putting significant competitive pressure on the private occupational pensions sector. According to Titmuss (1958:381-2), "The very growth of the private sector [is creating] two nations in old age and greater inequality in living standards after work than in work". Titmuss's proposals became embodied in a Labour party publication, *National Superannuation*, in 1957.

The response by the then Conservative government (1951-65) was to introduce a limited form of graduated earnings-related contributions in the National Insurance Act 1959, which helped protect the private pensions sector from competition from the state sector. In these

[3] For example, a National Assistance Board was set up as early as 1948 to pay supplementary means-tested benefits to the very poor (Hannah, 1986)

[4] Higher-earners, previously excluded from National Insurance in 1948, became eligible for state pensions after 10-years' worth of contributions (ie, as early as 1958) (Thane, 2000:370)

[5] See Titmuss, R. (1958). Essays on the Welfare State, London.

reforms, occupational schemes were permitted to 'contract out' of the graduated state pension, further limiting direct competition between the state and the private sector. While the Labour Party and the Conservative Party traded power between 1966 and 1974, hampering further radical pension reforms, in 1974 the minority Labour government linked the state pension to average earnings and inflation. The then Minister in charge of social security, Barbara Castle, maintained, via the Social Security Act 1975, a flat-rate state pension for the poorest, albeit now index-linked to inflation, but also earnings-related contributions and benefits above this level, the so-called State Earnings Related Pension (SERPS) scheme, similar to the scheme enacted in West Germany twenty years earlier[6]. The enhanced pension benefits from SERPS (typically an average of the 20 best salaried years in work) also put significant pressure on the private sector to provide similar matched benefits in 'contracted-out' occupational schemes. Ultimately, the Labour government had to provide a level of state assistance to the private pensions sector to satisfy them, becoming both competitor and partner/collaborator in UK pension provision.

The market for occupational pensions grew strongly following the second world war (see Moss, 2000:222), often achieved via generous tax incentives. At the same time, the tax allowance burden for the Treasury was growing, and the UK Inland Revenue had already begun to take action to reduce the fiscal burden (Hannah, 1986). For example, the 1947 and 1956 Finance Acts sought to limit the tax advantages of occupational pensions in various ways. Nonetheless, according to Thane (2000:381), by 1956 there were 37,000 occupational schemes covering one-in-three workers, increasing to one-in-two workers by 1970, such that by the end of the 1970's pensions savings in occupational schemes accounted for one-third of total savings, higher even than the US (Thane, 2000:382). However, occupational pension schemes covered only a bare majority of workers, often those in large organisations, and those on above-average pay (Hannah, 1986). Exclusion of certain types of worker in occupational schemes was permitted, and groups such as part-time workers, women, and new starters often faced exclusion from occupational pension arrangements, although from 1978 did have the opportunity to join the state SERPS scheme.

The occupational pensions market was dominated by insurance companies until the 1950s (Moss, 2000), although with competition emerging from consulting actuaries and merchant

[6] See Hannah (1986) p61-62

banks/fund management groups offering primarily self-administered, trust-based schemes as an alternative to insurance-based schemes offered by incumbent insurance companies (Hannah, 1986). Following the second world war, in the wake of continued growing occupational pension sales (see Moss, 2000), many insurance companies chose to increase their proportion of investments in equities for the first time as inflation volatility took hold in the 1950s, 1960s and 1970s, eroding the returns from fixed interest securities. For example, Moss (2000:255-270) recounts how and why the investment committee of Standard Life diversified its investment portfolio, more than doubling the proportion of equity investments between 1952 and 1961 and reducing its investments in fixed interest securities. At roughly the same time, Moss (2000:256) also highlights how Standard Life also switched a significant proportion of its investments to property and real estate in 1957. Hannah (1986:74) also describes how Legal & General was investing about a quarter of its investments in property in the early-1960s. Prior to this, pension portfolios managed by insurance companies were often invested primarily in portfolios of fixed interest securities, either government or government-backed entities to better match assets and liabilities, but at the cost of the potential for better returns. As a consequence, conventional fixed interest-backed pensions were becoming less attractive to employer clients (Moss, 2000).

As investment management expertise within insurance companies grew, led by the Prudential as early as 1951, and followed by insurance companies such as Legal & General and Standard Life in 1959 (Moss, 2000), 'with-profits' investments appeared in occupational pensions[7]. These investments allowed investors to 'share' in the investment-related profits of the insurance company, and 'with-profit' bonuses (ie, the share of the 'profit') became a key basis of competition in the occupational pensions market. However, with the oil crises and stock market collapse of 1974/5, many insurance companies switched the asset mix of their pension portfolios back into fixed interest securities[8], making them less attractive to financial intermediaries acting on behalf of employer clients. Furthermore, insurance companies also saw a significant fall in the value of their pension portfolios, which underpinned the value of pensions held by clients, putting pressure on the balance sheets of the insurance companies (Moss, 2000).

[7] The with-profits funds consisted of a mix of different asset classes, including equities, fixed interest securities, and property, often underwritten, and, in some cases, with guaranteed returns. The funds were also managed to provide 'smoothed' investment returns, by holding back returns in the 'good times' to permit greater returns in the 'bad times'.

[88] Moss (2000:284) highlights how Standard Life invested all new money in 1975 in fixed interest securities

The occupational pensions market was also subject to a significant increase in competition after the second world war. For instance, consulting actuaries offered trust-based, self-administered schemes that provided access to a wide range of asset classes, predominantly for large employer clients, such as Barclays, BP and ICI (Hannah, 1986). Similarly, fund management groups also entered the supplier market. In 1957, the fund management group M&G launched the first tax-exempt unit trust designed specifically for pension funds. Other firms also entered the 'self-administered' market offering stockbroking services and investment advice. The merchant banks, such as Warburgs and Schroders, were instrumental in taking a large share of the self-administered market, also forward integrating into brokerage services cutting off a degree of market access that insurance companies had previously benefitted from (Hannah, 1986). In response, insurance companies were squeezed to focus on the SME market and reconsider their product strategy.

In the 1960s, larger employer clients steadily deserted the insurance companies, opting for self-administered schemes offered by merchant banks, and insurance companies offered the cheapest, most convenient packaged solution for smaller or medium sized firms. According to Hannah (1986:77*),* "…insurance companies realised…[that they]…offered a package of services which was fine for this market, but which did not entirely suit larger employers". The logical step, according to Hannah (1986), was for insurance companies to split out or specialise their services into investment advice, actuarial services, administration, and investment management to better focus on where competition was strongest. To compete with competitors offering self-administered schemes, Legal & General launched a 'managed fund'[9] in 1971 (Hannah, 1986) and Standard Life created a subsidiary - Standard Life Investment Funds - to launch a unit-linked managed fund in 1979 (Moss, 2000).

[9] Managed funds were unit-linked and multi-asset class. In other words, consumers purchased units (or shares) in the fund. The amount of units purchased was calculated by reference to the unit price that day.

Thatcher and (de)regulation

1979 witnessed the election of Margaret Thatcher as UK Prime Minister. As a key political figurehead of the economic and (de)regulatory reforms of the 1980s, Margaret Thatcher - or 'Thatcherism' - has received scholarly attention in disciplines such as the reform of the public sector (Mascarenhas, 1993), deregulation (Berlinski, 2011; Bolick, 1995); home ownership (Seagert, Fields and Libman, 2009), policing (Sullivan, 1998), macroeconomics (Backhouse, 2002), and privatization (Marsh, 1991; Wolfe, 1991). Despite these important contributions, scholarly work that illuminates the relationship between Thatcherism and the individual personal pensions market is limited (Burton, 2016).

Almost immediately following her election, far-reaching policy announcements ensued. In July 1979, restrictions on overseas investments were removed (Britton, 1991) and by 1980, the link between the state pension and earnings was reversed (Thane, 2000)[10]. Deregulation also occurred alongside a strong economic and stock market outlook that ultimately created a boom for the demand of financial products (Burton, 1994). For example, by 1992 nearly 30% of all private pensions assets were held in individual personal pensions managed by insurance companies, amounting to over £200bn[11] The Conservative government used the tax system to support the financialization of product markets. For example, in other financial product markets, such as mortgages, mortgage tax relief was offered under a scheme in 1983 called MIRAS (mortgage interest relief at source) which made investment-linked endowment mortgages more popular than repayment methods[12] (Moss, 2000), and the Building Societies Act, 1986, permitted building societies to offer pension products, among other deregulatory reforms. Although in 1984 life assurance premium relief was removed[13], this did not extend to pensions, where life assurance could be added to pension policies, further increasing the attractiveness of pension products.

[10] Thane (2000) suggests that the state pension reduced from 19.8% of average earnings in 1980 to 16% in 1990

[11] Source: Association of British Insurers. Data pack can be downloaded: https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2013/industry-data/data-bulletin-funds-held-in-life-and-pension-products-2012.pdf

[12] Later withdrawn in 1988 (Moss, 2000)

[13] Life assurance premium relief (LAPR) was a system whereby tax relief was given to contributions to life assurance policies

It was also clear that the Conservative government did not intend to continue with or extend the so-called 'consensus' achieved by the previous Labour minister, Barbara Castle, in the late-1970's. In 1983, the Centre for Policy Studies published *'Personal and portable pensions for all'* (Vinson and Chappell, 1983) which suggested that money-purchase personal pensions would be easier to understand and be more portable. Later, in July 1984, the Conservative government announced that all employees would have the right to opt-out of occupational pension schemes and invest in their own money-purchase individual personal pension. This was followed by a white paper, *Reform for Social Security*, and later, *Reform of Social Security Programme for Action* that curtailed SERPS and improved transfer rights for members of occupational schemes (Moss, 2000). Embodied in the Social Security Act 1986 (which came into force in January 1988), occupational pension scheme members could opt out of their occupational scheme (and forfeit employer contributions) and buy an individual personal pension with full tax relief, as well as transfer any accrued SERPS benefits and future National Insurance contributions into the individual personal pension. The Conservative government strongly supported these new initiatives with TV and press advertising campaigns in the UK - the near-infamous 'breaking the chains' campaign that, by 1993, helped persuade around 5 million people instead of the estimated 0.5 million to establish an individual personal pension (Taylor-Gooby, 2006).

Although the Thatcher-led Conservative government is often recognised for its deregulation agenda, it was also concerned about regulation – specifically addressing mis-selling in the sector (Moss, 2000). As early as 1980, the newly created and self-regulatory Ombudsman had introduced cooling-off periods for regular premium policies and tried to improve the quality of information given to consumers. The Conservative government also invited Professor L. Gower to review investor protection and his report, published in 1984, called for better safeguards and a new Government authority to oversee the sector. These recommendations were later embodied in the Financial Services Act, 1986, which came into force in 1988. The main proposals were to improve pre- and post-sale disclosure[14] for consumers and 'depolarisation' of the intermediary sector - a new distinction between 'tied' agents, who

[14] Disclosure regulations included standardised communications to consumers, including key product features, and quotations relating to investment returns. The primary aim was to enable easier comparisons between products for consumers

could only recommend the products of one company, and independent advisers, who could advise on products from across the breadth of different companies. The principles of the Act sought to "…free up the market and to come down heavily on malpractice" (Hudson, et al., 1996:218).

Despite the ambition to protect investors, by 1992 the industry was already being tarnished by examples of high commissions to financial intermediaries, and therefore high lapse rates and poor surrender values, and allegations of poor selling practices (Moss, 2000). Furthermore, unscrupulous employers, such as the infamous Robert Maxwell case (see for example Clarke, 1993), were misappropriating occupational pension funds. In 1993, the Securities and Investment Board (SIB)[15] announced a review of pensions. Customers who could prove they had been ill-advised were permitted to seek redress, and companies were required to compensate customers where a loss might be anticipated. Consequently, with many insurance companies merging to reduce overheads, and financial intermediaries going out of business (Moss, 2000), the pensions mis-selling scandal paved the way for further far-reaching, regulatory reform, enacted in the Financial Services and Markets Act, 2000, and the launch of Stakeholder Pensions in 2001 by the Labour government elected in 1997.

Method

Given the paucity of studies concerned with the development of individual personal pensions in the aftermath of the election of the Conservative government in 1979, the inspiration for this paper was a retrospective, oral history study of the UK individual personal pensions product market between 1984 and 2014, conducted in 2014. In other words, the dataset for this paper is part of a larger study of the sector that examined the relationship between industry development and product design, and modularity theory was a guiding theoretical lens. To explore the connections between changes in (de)regulation (at the industry level) and product design (the product level) between the period mid-1980s to mid-1990s, we adopted an oral history data collection method (Thompson, 1988). The term 'oral history' often encapsulates various forms of in-depth life history interviews, biographical interviews, and personal narratives. Oral history is different from simple autobiography in terms of the degree to which the subject controls and shapes the process; oral history is interactive, drawing on another person's questions (Haynes, 2010; Thompson, 1988).

[15] An agency established under the Financial Services Act, 1986

While oral histories deal with a person's past, and range widely over many different topics, in this study oral histories were used within the context of events that occurred within the individual personal pensions product market within the period of mid-1980s to mid-1990s. However, within those parameters, respondents were able to range across a number of different topics of interest or importance to them. In this way, the term 'oral history' is used to encapsulate in-depth personal narratives, captured from open-ended questions to probe aspects of the narrative in order to maximise discovery. Oral histories are often used to give voice to those stories that would not usually be heard, or to verify or triangulate other forms of historical research using archives or other forms of secondary data, rather than as a method in its own right. However, our use of oral history follows that of Carnegie and Napier (1996:29) arguing that "oral history's greatest potential lies in its ability to capture the testimony of those effectively excluded from organisational archives", in other words the product developers and designers who were actually leading or involved in the changes to product design during the period.

In tune with the ideas of historical veracity (MacClean, Harvey & Clegg, 2016), open-ended interviews were conducted with thirty-one senior managers from six different companies[16] with first-hand experience of the period between mid-1980s to mid-1990s in a product development role at an insurance company or merchant bank. As such, our primary interest was to seek accounts from product developers employed in product development companies. The professional experience of the respondents are shown in Table 1:

Professional experience in the product market began:	Before 1980	1980-1985	1985-1990
No respondents	19	8	4

Table 1: Commencement year of respondents' professional experience

[16] Due to confidentiality, the names of the participants and organisations cannot be published. However, the respondents were drawn from organisations based in London, Edinburgh and Yorkshire.

The structure of the interview was sub-divided into two distinct parts. In part one, the aim was to invite respondents themselves to demark the periodization of the study and to baseline the product design types within that period. To enable this, we asked respondents to (i) set out a periodization that captured the beginning and end of the main impacts of the Thatcher (de)regulation agenda, and (ii) to assign generic product design types to the periodization using stylised product design constructs from the literature[17]. The process used is an example of "temporal bracketing" (Langley, 1999) or "periodization" (Fear, 2014) that aims to identify meaningful time units within a stream of historical data. In our study, there was a significant degree in the commonality of periodization across the thirty-one respondents. However, we also decided, with the help of participants and an expert panel, to synthesise the thirty-one time-periods into a single 'master timeline' that reflected the generalities from the particulars and formed the structure of the final periodization used in the data analysis phase as follows in Figure 1:

- Change period (two distinct sub-periods identified):
  - Mid to late-1980s
  - Mid to late--1990s
- Generic product types:
  - Mid to late-1980s: With-profits personal pension (non-modular)
  - Early to mid-1990s: Unit-linked personal pension (near-modular)

Figure 1: Periodization and generic product types[18]

[17] Refer to Burton (2016) and Burton & Galvin (2016) for the product design typology used.

[18] A with-profits policy is a managed investment consisting of equities, fixed interest securities, and often, property. There is no direct relationship between the premiums/contributions paid and the benefits paid. The 'returns' to the investor are actuarially calculated by reference primarily to the 'profits' made by the insurance company on its investments, and the smoothing mechanism employed. In contrast, a unit-linked policy is also a managed investment but there is a direct relationship between the value of the managed fund and the units (or share) of the fund held by the investor. In other words, payments into the fund buy units or shares which may go up or down in value based upon the total value of the fund each day.

The change period and generic product type timeline served as a structure for part two of the interview. We asked a series of open-ended questions directed towards the two discreet periods such as 'what was going on in this time period? 'what led to this change?', and 'what was the result of this change?'. Thus, the product design timeline and periodization provided a structure whereby an inductive logic was used to derive key themes. Errors of recall can permeate oral histories (eg. Thompson, 1988), however to minimise the magnitude of these problems we drew upon the procedural safeguards suggested by Glick, Huber, Chet Miller, Doty and Sutcliffe (1990). First, the interviews focused on connections and changes that seemed important to the respondent and thus these tend to be recalled more reliably. Second, all respondents were senior managers who, by virtue of their positions, were involved with the events and processes about which they reported. Third, to overcome issues associated with the 'distant' past, the sample consisted of respondents with first-hand experience of the events.

We then used template analysis to code the interview data. Template analysis is a distinct and flexible type of thematic analysis, first described by Crabtree and Miller (1992), later developed by King (1998, 2004) and as a method has gained traction in management studies, psychology, sociology and healthcare (Waring & Wainwright, 2008). We followed an approach suggested by King and Horrocks (2010) in combining a matrix and template analysis method. We wanted to understand the relationship between industry-level constructs (such as (de)regulation) and product-level design changes. The method allows themes to be coded to different units of analysis, and to different time periods, allowing us to examine the links between themes across time (Bucheli and Wadhwani, 2014). According to Lippmann and Aldrich (2014), adopting an evolutionary perspective in the union of management/organisation and historical research may offer an integrative mechanism to enable a better understanding of specific contexts as well as the articulation of generalised processes that shed new light on theoretical development. The final templates are shown in tabular, hierarchal form in Figures 2 and 3.

Product themes	Firm themes	Industry themes
1. Component interdependence	1. Firm boundary determinants	1. Product market factors
1.1 Integrated fund components	1.1 Gains from integration	1.1. Market stability
1.2 Integrated advice	1.2 Governance inseparability	1.2. Here come the unit-linkers
2. Fund components	1.3 Knowledge specificity	2. Deregulation
	1.4 Absence of intermediate markets	2.1 PEPs
	1.5 Gains from trade	2.2 Tax incentives
	1.5.1 Capabilities	2.3 SERPS
		2.4 PP regulation
		2.5 FSA Act 1986

Figure 2: Final template product, firm and industry themes: mid to late-1980s

Product themes	Firm themes	Industry themes
1. Component interdependence	1. Firm boundary determinants	1. Regulation
2. Component independence	1.1 Gains from integration	1.1 Pensions mis-selling
2.1 Fund component	1.1.1 Rents	2. Industry structure
2.2 Charges component	1.1.2 Capabilities	2.1 Unit-linked rate of adoption
2.3 Advice component	1.2 Gains from trade	2.2 Traditional provider consolidation
2.4 IT components	1.2.1 Rents	3. Changes in distribution structure
3. Interfaces	1.2.2 Capabilities	3.1 Demand for variety

Figure 3: Final template product, firm and industry themes: early to mid-1990s

Findings

Mid-1980s to late-1980s

In the mid-1980s, prior to the Social Security Act, 1986, and the Financial Services Act, 1986, the product market was characterised by respondents as fairly stable. The occupational pensions product market was dominated by insurance companies offering insurance-based occupational schemes to SMEs. In addition, merchant banks offered self-administered, trust-based occupational schemes to the largest companies. As Hannah (1986) notes, the industry had already begun to fragment into specialised functions, such as administration/operations, fund management, and distribution. However, these functions, at least for insurance-based schemes were often owned (vertically integrated) within firm boundaries. One respondent highlighted that "I think it was just the era of insurance companies, people didn't tend to outsource things in those days. It was just after the black suit and bowler-hat phase of the City. That's how they'd always done it. And they'd always done it on an in-house basis".

From a product design perspective, insurance-based occupational schemes largely comprised of with-profits pensions – a design characterised by respondents as 'non-modular'. A number of respondents remarked "it was all intertwined, interlinked", "most components are interdependent with each other", "they're incredibly tough to change because everything's integrated, everything has an impact on everything else", "it was very hard to change, tightly-bound. You couldn't really see how any of those products were going to be de-constructed", and "There were no industry standards whatsoever". In contrast, self-administered, trust-based occupational schemes were often unit-linked in order to permit large employer clients access to a wider range of investment options[19] that were often available to different classes of employee (eg. full-time worker, directors, etc). Although the occupational self-administered segment was dominated by merchant banks, a few unit-linked insurance companies[20] also offered self-administered schemes.

[19] In this section, I will use the term 'investment option(s)' to generically denote different types of investments such as collective investment schemes (or 'funds'), stocks, shares and/or other kinds of investment that are often made available within pension plans

[20] These unit-linked insurance companies, such as Skandia, were unit-linked from inception, and were one of the first of a new type of unit-linked insurance company to enter the individual personal pensions market with unit-linked product designs

At the industry-level, by 1988, many new insurance companies began to enter the individual personal pensions product market. Respondents suggested that the market opportunity afforded by the new product designs, the financialization of markets, and the (de)regulation of product markets all played an influencing role. For example, the financialization of product markets – and the seeds of the subsequent pensions mis-selling scandal – is a recurring theme. For example, "In 1988, we had the introduction of individual pensions. We had the Government advert 'Breaking the Chains'. They said 'get out of your defined-benefit schemes, because they're rubbish and you'll be better able to understand personal pensions'. The context at the time was that there had been the 'Big Bang'; the stock markets had just opened up to the public; people were buying shares, and privatisation was king. And so, everybody was interested in making a fast buck on the stock exchange and the personal pension market effectively got behind that". The Social Security Act, 1986, enacted in 1988, also permitted consumers to redirect National Insurance contributions into their individual personal pension, as opposed to being allocated to SERPS. One respondent suggested "you have to remember a lot of them in the market [providers] got fired up by SERPs contracting out", and "tax relief at source, that was a huge swinger for many customers and fuelled demand for personal pensions".

As consumers were being urged by Government and the sector to take accountability and control for their own personal pension provision, "increasingly people were attracted to the idea of being responsible for their own futures and taking responsibility for their own financial affairs". There was also a motivation from consumers to participate in the stock market, "every week there was a new IPO. There was an increasing interest in the population being responsible for their own wealth management. And I think unit-linking in pensions was partly a reflection of that trend". According to one respondent: "Because of smoothing and exposure to fixed interest investments, with-profits investments just didn't offer the potential upside of unit-linked funds linked to the stock-market and people didn't want to miss out on the upside". Another respondent recalled: "Stock markets sort of kept on going up and up and up. So, insurance companies could sell on the basis of 'look at our equity funds – vroom!' Fantastic, and so it all started going into unit-linked". As a consequence, by the late-80s the concept of unit-linked personal pensions had permeated the sector. As one respondents suggests: "By the late-'80's, there was an increasing trend of more investment choice

becoming available through the unit-linked route" and "After 1988, most personal pensions tended to be unit-linked".

The disclosure and depolarisation regulations of the Financial Services Act, 1986, also had far-reaching consequences. In the early to mid-1980s, financial services products, including insurance-based occupational pensions, were often sold by tied advisors who were employed by the insurance company - another facet of vertical integration in this period. As one respondent recalled, "In the early-1980s, tied sales forces were common, so you were looking at something much more vertically integrated. It was expensive to build but at least you got all of the business". Following depolarisation, distribution was outsourced to independent financial advisers (IFAs) and by the early-1990s (as pensions mis-selling started to bite) few tied advisers were left in the sector. Depolarisation had two main impacts. First, regulations embodied in the Financial Services Act, 1986, significantly increased the risks and costs associated with internal ownership and management of the activity due to the compliance and monitoring costs (and later the compensation costs associated with pensions mis-selling). Second, regulatory standards codified the nature of market contracts between insurance companies and independent financial advisory firms, thereby reducing contracting risks. As one respondent recalls: "a tied sales-forces automatically carries risk and fixed costs. From that point of view, if you are selling as well as administering as well as running funds, vertically integrated, you carry risk and cost in all areas. Whereas, if you are segmenting the value chain and just focussing on a key component, such as product design, there's still money to be made by specialising in a certain part of that value chain. That's why we switched to using independents".

The pensions mis-selling scandal is another key factor that led insurance companies to outsource distribution to independent financial advisors. Fines from pensions mis-selling, combined with the increased costs of regulation and compliance, led many insurance companies to downsize or eliminate their directly owned tied advisors by the early-1990s. With high commissions being paid to sales people (to gain market share), this led to many examples of unethical practice. One respondent recalled: "People were told you need a personal pension, come out of SERPS, come out of your all-singing, all-dancing, occupational scheme, where you take none of the risk, where your employer takes all the risk, you have none of the downside, you're gilt-edged pension with inflation-linking for the rest of your life, you don't want that, you want a personal pension where you're in control of it".

Another respondent remembered: "In the personal pensions market, there were a lot of high commissions, a lot of scandals – people going to jail, it was a very cut-throat business, and it was a scandal that ultimately cost the industry billions in compensation. Companies completely disappeared. The compensation was so great that they just went under. It was a terrible mess and a lot of the sales people were villains basically".

However, as the speed of the shift towards using independent financial advisers as the primary method of distribution increased, the demand for more variety in investment options also increased – providing further impetus for unit-linked product designs. As a respondent explained: "Independents sell products based on providing more sophisticated investment advice to customers. So, the shift is starting to get into a variety of investments. If you have only got a with-profits fund to sell, what's the IFA got to do? He can't really justify a greater commission if he can only actually recommend that one fund". In other words, demand for variety in investment options from independent financial advisers – as well as consumers - also influenced, or had knock-on design consequences, for individual personal pension products and the move towards a near-modular design in the early to mid-1990s.

Early-1990s to mid-1990s

By the early to mid-90s the demand for increased variety in investment options dominated product development. Thus, many insurance companies turned to external fund management groups to source a range of different investment options and asset classes that would appeal to consumers and independent financial advisers. As one respondent recalls, "what we'll never be able to do is be a top investment group in every aspect for all scenarios; so what we want to do is to offer expertise that we don't have, from fund management groups who know better how to manage money. The hypothesis was that you would not get as good investment performance as you would if you outsourced to people who are experts in fund management in different asset classes and different countries". Another respondent emphasised the need to access superior investment expertise from fund management groups: "We didn't outsource because we suddenly had this blinding flash of insight – we did it because we had an absolutely terrible investment record. Our capabilities were limited. In the late-80s and early-90s people started saying maybe in-house insurance company fund management guys aren't the best people to manage our money. We want more oomph".

At the same time, scale economies were critical in making the outsourced business model work. As a few respondents remembered: “the margin that we had to give away was negotiable downwards on a growing basis” and “Initially, we paid the fund managers too much. We got wise to that and we squeezed them down and down. So we were retaining a very significant part and what we did was expanded the cake. So it became much more profitable. So we made lots of money during that time”. A further respondent highlighted the opportunities for differentiation and competitive advantage in providing access to numerous investment options: “It wasn't all a cost-driven thing. There's a marketing opportunity here, there's an opportunity for us to differentiate what we do as opposed to what other people do, produce some more value for the customer and therefore gain market share so ultimately get a return for the shareholder”. To acquire scale economies, speed to market became a key strategic issue to enable faster plug and play of investment options. For instance, “we don’t want it to cost twice as much because you’re componentising it, but it’s not actually about cost, it’s the timescale we’re worried about really. I think cost and time were embarrassing, you felt like a big clunky organisation, it takes a long time to get something to market, losing market share. So I think time to market was pretty key. The idea of a componentised model would make things easier and more attractive and we could just link these components together to make the whole development easier”.

However, despite the importance of speed, the increase in the variety of investment options was initially quite limited owing to the absence of standards to connect investment options to the product architecture, limiting modularisation. For example, “In the early 90s, you needed more than just a with-profit fund, and commonly you would have four funds or five unit-linked funds of different asset classes or geographical areas”. However, the pace of progress in adding additional investment choice was quite challenging. One respondent recalled the IT challenges: “I mean in a big monolithic IT system, it’s not very easy to do because you have to commit major surgery to cut the component out of the system. I can definitely remember that adding funds was eventually made a lot simpler by agreeing standards and processes with external fund management groups”. Thus, the growth in investment variety increased only as standards emerged between insurance companies and fund management groups to permit easier ‘plug and play’ of investment options into the IT system. In the early-90s, industry

standards had not yet emerged, however by the mid-90s, standards were permeating across firm boundaries. For example, "there were some specific standards. You give us this sort of information and we can put your fund into our system" and "there was also more standards inside the system, one bit talking to another, so I think the companies were building interfaces to try and componentise the system".

With standards to connect investment options to the product emerging, by the mid-90s some insurance companies had extended the range of investment options "from just one with-profits or managed fund to around 250 because our own internally-managed investments had been so incompetently run". As many respondents recalled, product variety was increasing fast: "During the early-90s, the variety of fund increased significantly, in that time, personal pensions were offering a small range of 5 to 10 external funds and by the mid-90s that developed and evolved to quasi-open architecture. There was an element of plug-and-play, but within a framework" and "In '90 to say '92 products would have 15 or so fund links, and then by '95 or '96 maybe to a range of 300 funds".

Discussion

The (de)regulation agenda of the Conservative government in the mid-to-late 1980s was a pivotal and critical change period in the development of the UK individual personal pensions product market. The Social Security Act, 1986, and Financial Services Act 1986, enacted in 1988 carved out a new individual personal pension regime and ultimately transferred much of the obligation for pension provision from the state to consumer. While the agenda was heavily politicised, regulation had a significant influence on the architectural choices of product design in the sector, which are arguably still playing-out today. Moreover, regulation in the two decades that followed, such as the Stakeholder Pensions regime (2001) and the pensions simplification agenda (2006) both led by the then Labour government, can all be interpreted as further attempts by Government to better regulate the industry and ensure more flexibility, choice and protection for consumers.

The legislative and regulatory environment of the Thatcher period did not directly regulate product design. However, this paper has shown how the (de)regulation agenda influenced changes in product design: an evolution from a 'non-modular' with-profits individual personal pension in the mid to late-1980s towards a 'near-modular' unit-linked individual personal pension by the early to mid-1990s. We argue that both regulatory and emergent

standards and the context of financialization of product markets in this period were key enablers in this transition phase.

First, we argue that the disclosure and depolarisation regulations in the Financial Services Act, 1986, ushered in a set of compliance standards that increased the risks and costs of ownership of distribution for insurance companies. Subsequently, the risks and costs of owning distribution became too great, forcing many providers to adopt an outsourced distribution model to independent financial advisers who were responsible and liable to the regulator for their own advice (ironically, perhaps, many independent financial advisers were ex-employees of the insurance companies). The pensions mis-selling scandal in the early-1990s added further traction to this modularisation process. From a modularity perspective, we argue that the depolarisation and disclosure regulatory standards influenced distribution to become componentised, or made 'modular', as depolarisation and compliance standards governed the coordination of the market contract.

Second, we argue that the increase in the variety of investment options available within individual personal pensions was significantly influenced by the context of the financialization of product markets and resulting demand for exposure to national and international stock markets from both consumers and independent financial advisers. Unit-linking a wide range of investment options to individual personal pension products, and the significant promotion of individual personal pensions by the Conservative government, can be seen within the wider context of the IPOs, privatisations, home ownership, and share-ownership in this period in the UK (eg, Moss, 2000) and throughout the US at the same time (Krippner, 2012). Furthermore, we argue that the emergence and definition of product standards between insurance companies and fund management groups acted as a facilitator for the exponential increase in investment options within individual personal pensions between the late-1980s and mid-1990s, without which the increase in investment options would have been much slower. In other words, the context of financialization and the resulting development of emergent product standards for connecting a wide range of investment options to the product provided the impetus for further modularisation to occur.

Third, our paper extends current management history research on the UK pensions market by highlighting the close relationship between (de)regulation and the financialization agenda of the Conservative government, led by Margaret Thatcher, to changes in product design. Prior

studies in the UK have tended to focus on the development of the occupational pensions product market (eg, Hannah, 1986) or on case studies of major product providers in the sector (eg, Moss, 2000). However, our main contribution lies in examining the role of (de)regulation and financialization as *modularisation process*. The increasing modularisation of individual personal pension product design between the mid-1980s and mid-1990s provides further support for the body of scholarly work that has examined modularisation processes in a number of different empirical settings (ie, Funk, 2008; Galvin & Morkel, 2001; MacDuffie, 2013). However, many prior empirical studies in the modularity tradition have ignored the role of (de)regulation - a key gap in the literature identified by Jacobides (2005).

Fourth, from an industry level perspective, we also show how modularisation at the product level is also associated with the breaking apart of the vertically-integrated industry structure – historical evidence to further support the idea of a relationship between the breaking apart of products and the breaking apart and specialisation of industries (eg, Jacobides, 2005; Jacobides & Winter, 2005; Jacobides, Knusden and Augier, 2006). In our study, it would appear that the breaking apart of the product design and industry structure followed – or at least quickened after – the (de)regulation initiatives that established standards (a 'template') for how the product and surrounding industry architecture should function. As such, our study also supports the idea of a 'mirroring hypothesis'[21] between the architectures of products and organisations/industries (ie, Colfer & Baldwin, 2016; Furlan, Cabigiosu & Camuffo, 2014; MacCormack, Baldwin & Rusnak, 2012). Further empirical management history research may wish to examine the possible relationship between the Thatcherite (de)regulatory reforms and the structure of products and surrounding industries affected by those reforms, such as other financial services product markets, the energy sector, and telecommunications.

Finally, our methodological approach has potential uses by scholars in management history. By combining rich oral histories from participants 'who were there at the time' with template analysis[22] (King, 1998; 2004), we have shown how it is possible to identify themes from textual data at different units of analysis and across time as an alternative to, or to supplement, traditional archival and secondary data methods.

[21] The mirroring hypothesis predicts that the structure of an organisation will mirror the technical architecture of the product it designs

[22] King (1998, 2004) discusses how template analysis can be implemented within different epistemological traditions

Limitations

With theoretical implications aside, this paper has some limitations. First, we rely upon oral histories from thirty-one senior managers as our data source. We have not attempted to verify or triangulate their accounts with archival or secondary data. Our primary aim in this study was to reveal new discoveries about the potential relationship between (de)regulation and product design from actors who were actually involved in interpreting the (de)regulation in real-time and leading product design changes, and, therefore, our interviews provided access to primary data unavailable by any other methods. Nonetheless, we would welcome further future studies examining the relationship between (de)regulation and product and/or industry change using archival and secondary sources. We also recognise that the system property of modularity is a matter of degrees (Schilling, 2000). Product designs are unlikely to be fully 'non-modular' or 'fully modular' and often the degree of modularity a system exhibits sits between these two polar extremes. Nonetheless, our generic product design types 'made sense' to respondents and their oral histories provide evidence of the trajectory to a 'more modular' product design during the period.

More generally, we acknowledge our research and theoretical contribution are context-specific, and generalisations of the relationship between (de)regulation and product modularisation would require further research. In fact, it may be the case that (de)regulation in other product market settings could conceivably be associated with less – not more - modularity. Given the importance of (de)regulation to many diverse product markets, further historical research in this field would be valuable to practitioners and policy-makers.

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THE THATCHER GOVERNMENT AND DEREGULATION: MODULARISATION OF INDIVIDUAL PERSONAL PENSIONS

Abstract

The (de)regulation agenda of the Conservative government, led by Margaret Thatcher, elected in 1979 is an important change point that has attracted only limited attention from management and historical research scholars. Thus, how (de)regulation in this era influenced the evolution of product design remains ripe for exploration. In this paper, we examine the UK individual personal pensions product market between the mid-1980s and mid-1990s to examine the relationship between (de)regulation – an industry level factor – and its impact on architectural choices of product design – a product level factor. We adopt a retrospective, oral history research design to give voice to participants with first-hand product development experience of the change period, and find that (de)regulation reforms and the context of the financialization of product markets came to define how products were then designed, evolving product design from non-modular to near-modular, a trajectory that arguably continues until the present day.

Keywords: Individual Personal Pensions; Modularity; Deregulation; Margaret Thatcher

Introduction

The (de)regulatory [1]agenda of the Conservative government elected in 1979, led by Margaret Thatcher, is, we suggest, an underexplored example of the 'financialization' of financial services product markets that occurred in the UK (and occurred broadly at the same time as similar reforms in the US and across Europe, see for example Dixson & Sorsa, 2009; Krippner, 2012; Langley, 2004; 2007; and van der Zwan, 2014). In this paper, we focus specifically on the relationship between the (de)regulation agenda and the modularisation of the UK individual personal pensions. The individual personal pensions regime was implemented in 1988, following embodiment in the Social Security Act, 1986, and we argue that these events represent an important change event in the development of the wider UK pensions market, bringing to the fore the ideas of individual and personal control and responsibility for retirement provision[2].

Government policy and (de)regulation has significantly influenced the UK pensions market over the last century (Hannah, 1986). From a management and organisation history perspective, the wider UK pensions product market has received only limited attention. For example, Hannah (1986) examines the development of UK occupational pensions, and Moss (2000) charts the history of Standard Life, a Scottish insurance company and a major player in UK financial services product provision. Beyond the UK, other studies have focused on the development of pensions markets in the US (Ghilarducci, 1992; 2008), Western Europe (Hyde, Dixson and Drover, 2003) and in Central and Eastern Europe (Muller and Wagener, 1999). In the UK, Hannah's seminal book on the development of occupational pensions in Britain was published in 1986, before the implementation date of individual personal pensions and the Financial Services Act, 1986, in 1988. Thus, the development of the UK individual personal pensions product market – which we define as *non-occupational, voluntary, personal pension contracts offered by the private sector* - and how it was 'carved out' from the occupational pensions regime, in the aftermath of the election of UK Prime Minister Margaret Thatcher in 1979 remains remarkably underexplored.

[1] We use the phrase (de)regulation to signify that the reforms of the period both deregulated and regulated aspects of the product market . For a discussion, see Booth (2015).

[2] For example, see article in trade magazine, Professional Pensions. https://www.professionalpensions.com/professional-pensions/feature/2261768/how-thatchers-governments-changed-pensions

Unlike prior contributions to the study of UK pensions, we examine the change period from the mid-1980s to the mid-1990s in order to examine the relationship between the (de)regulation agenda of the mid and late-1980s and subsequent changes to individual personal pensions product design. Our main argument is that the (de)regulation agenda of the period – and, we aqrgue, the context of the 'financialization' of markets (Krippner, 2012) - set in train 'modularising' processes that influenced product design and that arguably continue until the present day. Thus, we are specifically concerned with the relationship between the (de)regulation of individual personal pensions (as an industry level variable) and its effects on product design (a product level variable), and we draw primarily upon the modularity literature as a basis for our analysis (ie, Sanchez & Mahoney, 1996; Schilling, 2000). Modularity is a design characteristic of a system, based upon the notion of partitioning a system into simpler sub-systems or components (Simon, 1962, von Hippel, 1990). Modularity is a feature common to some product markets, such as motor vehicles (MacDuffie, 2013), bicycles (Galvin & Morkel, 2001); air-conditioning systems (Furlan, Cabigiosu & Camuffo, 2014) and stereo systems (Langlois & Robertson, 1992). The design characteristic that lies at the heart of modularity is greater interdependence within components than across different components (Ulrich, 1995). In perfect form, modularity facilitates a one-to-one mapping between product functions and product components (Ulrich, 1995), so long as there is a defined and standard interface that can connect components together. Interface standardisation, whether emergent between firms in an industry or enforced by regulation or some other external body, is arguably the key design characteristic of modular systems (Sanchez, 2008; Sanchez & Mahoney, 1996), as it keeps the interfaces between components constant. Standardised interfaces often help increase component variety because it allows for easier substitution (Sanchez, 1995). In other words, modularity permits easier mixing and matching of components to give a potentially large number of product variations (Sanchez & Mahoney, 1996; 2013; Schilling, 2000), which may be a source of strategic advantage (Sanchez, 1995). In the modularity literature, the presence of standardised interfaces has often been conceptualised as emergent or enforced by Standard Setting Organisations such as DVD standards or ISO standards (ie, Schilling, 1999), and the role of (de)regulation has received little attention.

As a general systems theory (Schilling, 2000), modularity has often been researched as a static, cross-sectional property of organisational systems, such as industries, organisations and products (see for example Campagnolo & Camuffo, 2012, for a review). In contrast, we follow scholars such as Burton and Galvin (2016) and Sanchez (2008) to conceptualise modularity as a dynamic phenomenon. In other words, organisational systems, in our case products, can either evolve towards being more or less modular over time. Framed in this way, the modularity lens helps us to understand connections between different levels in a system hierarchy across time. Moreover, modularity scholars have largely ignored 'intangible' products such as pensions, instead emphasising (almost exclusively) manufacturing industries such as motor vehicles (MacDuffie, 2013, Takeishi, 2002; Takeishi & Fujimoto, 2003) and air-conditioning systems (Furlan, Cabigiosu & Camuffo, 2014).

We proceed as follows: (i) we chart the key developments in political, legislative and regulatory changes that preceded the election of the Conservative government in 1979, (ii) we outline the key reforms of the Thatcher-led Conservative government, (iii) we then discuss our research method, (iv) our findings, and (v) and offer discussion and some concluding remarks.

From Beveridge to Thatcher

Although the focus of this paper is the UK individual personal pensions market, we begin by charting the key political and legislative milestones of the occupational and state pensions markets. Perhaps one of the most important milestones in the provision of state pensions in the UK was the Beveridge White Paper, *Social Insurance and Allied Services,* published in 1942. The plan, according to Beveridge, was to "...secure income for subsistence on condition of service and contribution and in order to make and keep men fit for service...*the plan leaves room and encouragement to all individuals to win for themselves something above the national minimum".* (p170, added emphasis). Of central importance to Beveridge was the ideal of universalism of both contribution and benefit, the eradication of poverty, and nationalisation of assurance companies (Beveridge, 1942). Beveridge proposed a flat-rate state-administered pension adequate to meet the subsistence requirements of workers.

In 1942, Beveridge's ideas were well-received by the then opposition Labour Party (who later formed the social-reforming post-war government in 1945). However, by the time many of the proposals were embodied in the National Insurance Act 1946 (which came into force in 1948), both the level of pension benefits and the concept of universality[3] was already under pressure. The Conservative Party had criticised the proposals from the start, with opposition to the idea of univeralism and a belief in better targeting of benefits to those in need. By 1948, however, growing concerns over an ageing population, and its long-term impacts on the Treasury, had already began to be voiced (Thane, 2000) and post-war reconstruction costs put additional pressure on social security spending. Thus, in various stages contributions to the national insurance scheme increased and benefits fell (Thane, 2000). As the population aged, and the 'middle classes' became entitled to qualify for state pensions in the late-1950's[4], it was becoming evident that the rising state pension costs would have to offset by progressively graduating contributions, much like income tax, since an increasing flat-rate contribution would over-burden the less well-off. In the mid-1950s, Richard Titmuss[5] was critical of both occupational pensions and the flat-rate contributory state system at a time when the income tax system was becoming more progressive. His proposed solution was a graduated contributory scheme, however the contributions would not be linked to benefits, maintaining a redistributive effect. The typical guaranteed pension benefits would be half of final salary, which had the result of putting significant competitive pressure on the private occupational pensions sector. According to Titmuss (1958:381-2), "The very growth of the private sector [is creating] two nations in old age and greater inequality in living standards after work than in work". Titmuss's proposals became embodied in a Labour party publication, *National Superannuation*, in 1957.

The response by the then Conservative government (1951-65) was to introduce a limited form of graduated earnings-related contributions in the National Insurance Act 1959, and protect the private sector from competition from the state sector. In these reforms, occupational schemes were permitted to 'contract out' of the graduated state pension, further limiting direct competition between the state and the private sector. While the Labour Party and the Conservative Party traded power between 1966 and 1974, hampering further radical pension reforms, in 1974 the minority Labour government linked the state pension to average earnings

[3] For example, a National Assistance Board was set up in 1948 to pay supplementary means-tested benefits to the very poor (Hannah, 1986)

[4] Higher-earners, previously excluded from National Insurance became eligible for state pensions after 10-years' worth of contributions (ie, as early as 1958) (Thane, 2000:370)

[5] See Titmuss, R. (1958). Essays on the Welfare State, London.

and inflation. The then Minister in charge of social security, Barbara Castle, maintained, via the Social Security Act 1975, a flat-rate state pension for the poorest, albeit now index-linked to inflation, but also earnings-related contributions and benefits above this level, the so-called State Earnings Related Pension (SERPS) scheme, similar to the scheme enacted in West Germany twenty years earlier[6]. The enhanced pension benefits from SERPS (typically an average of the 20 best salaried years in work) also put significant pressure on the private sector to provide similar matched benefits in 'contracted-out' occupational schemes. Ultimately, the Labour government had to provide a level of state assistance to the private sector to satisfy the sector, becoming both competitor and partner/collaborator in UK pension provision.

The market for occupational pensions grew strongly following the second-world- war (see Moss, 2000:222), often achieved via generous tax incentives. At the same time, the tax allowance burden for the Treasury was growing, and the UK Inland Revenue had already begun to take action to reduce the fiscal burden (Hannah, 1986). For example, the 1947 and 1956 Finance Acts sought to limit the tax advantages of occupational pensions in various ways. Nonetheless, according to Thane (2000:381) by 1956 there were 37,000 occupational schemes covering one-in-three workers, increasing to one-in-two workers by 1970, such that by the end of the 1970's pensions savings in occupational schemes accounted for one-third of total savings, higher even than the US (Thane, 2000:382). However, occupational schemes covered only a bare majority of workers, often those in large organisations, and those on above-average pay (Hannah, 1986). Exclusion of certain types of worker in occupational schemes was permitted. Often, groups such as part-time workers, women, and new starters often faced exclusion from occupational pension arrangements, although from 1978 did have the opportunity to join the SERPS scheme.

The occupational pensions market was dominated by insurance companies until the 1950s (Moss, 2000), with competition emerging from consulting actuaries and merchant banks/fund management groups offering primarily self-administered, trust-based schemes as an alternative to insurance-based schemes offered by insurance companies (Hannah, 1986). Following the second-world-war, in the wake of continued growing occupational pension sales (see Moss, 2000), many insurance companies chose to increase their proportion of investments in equities for the first time as inflation volatility took hold in the 1950s, 1960s and 1970s, eroding the returns from fixed interest securities. For example, Moss (2000:255-270) recounts how and why

[6] See Hannah (1986) p61-62

the investment committee of Standard Life diversified its investment portfolio, more than doubling the proportion of equity investments between 1952 and 1961 and reducing its investments in fixed interest securities. At roughly the same time, Moss (2000:256) also highlights how Standard Life also switched a significant proportion of its investments to property and real estate in 1957 and Hannah (1986:74) describes how Legal & General was investing about a quarter of its investments in property in the early-1960s. Prior to this, pension portfolios managed by insurance companies were often invested primarily in portfolios of fixed interest securities, either government or government-backed entities to better match assets and liabilities, but at the cost of the potential for better returns. As a consequence, conventional fixed interest-backed pensions were becoming less attractive to employer clients (Moss, 2000).

As investment management expertise within insurance companies grew, led by the Prudential as early as 1951 and followed by insurance companies such as Legal & General and Standard Life in 1959 (Moss, 2000), 'with-profits' investments appeared in occupational pensions[7]. These investments allowed investors to 'share' in the investment-related profits of the insurance company, and 'with-profit' bonuses (ie, the share of the 'profit') became a key basis of competition in the occupational pensions market. However, with the oil crises and stock market collapse of 1974/5, many insurance companies switched the asset mix of their pension portfolios back into fixed interest securities[8], making them less attractive to financial intermediaries acting on behalf of employer clients. Furthermore, insurance companies also saw a significant fall in the value of their pension portfolios, which underpinned the value of pensions held by clients, putting pressure on the balance sheets of the insurance companies (Moss, 2000).

The occupational pensions market was also subject to a significant increase in competition after the second-world-war. For instance, consulting actuaries offered trust-based, self-administered schemes that provided access to a wide range of asset classes, predominantly for large employer clients, such as Barclays, BP and ICI (Hannah, 1986). Similarly, fund management groups also entered the supplier market. In 1957, the fund management group M&G launched the first tax-exempt unit trust designed specifically for pension funds. Other firms also entered the 'self-

[7] The with-profits funds consisted of a mix of different asset classes, including equities, fixed interest securities, and property, often underwritten and, in some cases, with guaranteed returns. The funds were also managed to provide for 'smoothed' investment returns, by holding back returns in the 'good times' to permit greater returns in the 'bad times'.

[88] Moss (2000:284) highlights how Standard Life invested all new money in 1975 to fixed interest securities

administered' market offering stockbroking services and investment advice. The merchant banks, such as Warburgs and Schroders, were instrumental in taking a large share of the self-administered market, also forward integrating into brokerage services cutting off a degree of market access that insurance companies had previously benefitted from (Hannah, 1986). In response, insurance companies were squeezed to focus on the SME market and reconsider their product strategy.

In the 1960s, larger employer clients steadily deserted the insurance companies, opting for self-administered schemes offered by merchant banks, and insurance companies offered the cheapest, most convenient packaged solution for smaller or medium sized firms. According to Hannah (1986:77*),* "...insurance companies realised...[that they]...offered a package of services which was fine for this market, but which did not entirely suit larger employers". The logical step, according to Hannah (1986), was for insurance companies to split out or specialise their services into investment advice, actuarial services, administration, and investment management to better focus on where competition was strongest. To compete with competitors offering self-administered schemes, Legal & General launched a 'managed fund' [9]in 1971 (Hannah, 1986) and Standard Life created a subsidiary - Standard Life Investment Funds - to launch a unit-linked managed fund in 1979 (Moss, 2000).

Thatcher and (de)regulation

By 1979, with the election of Margaret Thatcher as UK Prime Minister in 1979, the pensions landscape was subject to further far-reaching regulatory change (Burton, 2016). Almost immediately, far-reaching policy announcements ensued. In July 1979, restrictions on overseas investments were removed (Britton, 1991) and by 1980, the link between the state pension and earnings was reversed (Thane, 2000)[10]. Deregulation also occurred alongside strong economic and stock market outlook that ultimately created a boom for the demand of financial products (Burton, 1994). For example, by 1992 nearly 30% of all private pensions assets were held in individual personal pensions managed by insurance companies, amounting to over £200bn[11] The Conservative government used the tax system to support the financialization of product

[9] Managed funds were unit-linked and multi-asset class. In other words, consumers purchased units (or shares) in the fund. The amount of units purchased was by reference to the unit price that day.

[10] Thane (2000) suggests that the state pension reduced from 19.8% of average earnings in 1980 to 16% in 1990

[11] Source: Association of British Insurers. Data pack can be downloaded: https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2013/industry-data/data-bulletin-funds-held-in-life-and-pension-products-2012.pdf

markets. For example, in other financial product markets, such as mortgages, mortgage tax relief was offered under a scheme in 1983 called MIRAS (mortgage interest relief at source) which made investment-linked endowment mortgages more popular than repayment methods[12] (Moss, 2000) and the Building Societies Act, 1986, permitted building societies to offer pension products, among other deregulatory reforms. Although in 1984 life assurance premium relief was removed[13], this did not extend to pensions, where life assurance could be added to pension policies, further increasing the attractiveness of pension products.

It was also clear that the Conservative government did not intend to continue with or extend the so-called 'consensus' achieved by the previous Labour minister, Barbara Castle, in the late-1970's. In 1983, the Centre for Policy Studies published *'Personal and portable pensions for all'* (Vinson and Chappell, 1983) which suggested that money-purchase personal pensions would be easier to understand and be more portable. Later, in July 1984, the Conservative government announced that all employees would have the right to opt-out of occupational pension schemes and invest in their own money purchase individual personal pension. This was followed by a white paper, *Reform for Social Security*, and later, *Reform of Social Security Programme for Action*, that curtailed SERPS and improved transfer rights for members of occupational schemes (Moss, 2000). Embodied in the Social Security Act 1986, which came into force in January 1988, occupational scheme members could opt out of their occupational scheme (and forfeit employer contributions) and buy an individual personal pension with full tax relief, as well as transfer any accrued SERPS benefits and future National Insurance contributions into the individual personal pension. The Conservative government strongly supported these new initiatives with TV and press advertising campaigns in the UK - the near-infamous 'breaking the chains' campaign that by 1993 around 5 million people instead of the estimated 0.5 million had taken the opportunity to establish a personal pension (Taylor-Gooby, 2005).

Although the Thatcher-led Conservative government is often recognised for its deregulation agenda, it was also concerned about regulation – and specifically mis-selling in the sector (Moss, 2000) and sought to better regulate the sector. As early as 1980, the newly created and self-regulatory Ombudsman had introduced cooling-off periods for regular premium policies and

[12] Later withdrawn in 1988 (Moss, 2000)
[13] Life assurance premium relief (LAPR) was a system whereby tax relief was given to contributions to life assurance policies

tried to improve the quality of information given to consumers. The Conservative government also invited Professor L. Gower to review investor protection and his report, published in 1984, called for better safeguards and a new Government authority to oversee the sector. These recommendations were later embodied in the Financial Services Act, 1986, which came into force in 1988. The main proposals were of improved pre- and post-sale disclosure[14] for consumers and 'depolarisation' of the intermediary sector - a distinction between 'tied' agents, who could only recommend the products of one company, and independent advisers, who could advise on products from across the breadth of companies. The principles of the Act sought to "...free up the market and to come down heavily on malpractice" (Hudson, et al., 1996:218).

Despite the ambition to protect investors, by 1992 the industry was already being tarnished by examples of high commissions to financial intermediaries, and therefore high lapse rates and poor surrender values, and allegations of poor selling practices (Moss, 2000). Furthermore, unscrupulous employers, such as the infamous Robert Maxwell case (see for example Clarke, 1993), were misappropriating occupational pension funds. In 1993, the Securities and Investment Board (SIB)[15] announced a review of pensions. Customers who could prove they had been ill-advised were permitted to seek redress, and companies were required to compensate customers where a loss might be anticipated. Consequently, with many insurance companies merging to reduce overheads, and financial intermediaries going out of business (Moss, 2000), the pensions mis-selling scandal paved the way for further far-reaching, regulatory reform, enacted in the Financial Services and Markets Act, 2000, and the launch of Stakeholder Pensions by the Labour government elected in 1997.

Method

Given the paucity of studies concerned with the development of individual personal pensions in the aftermath of the election of the Conservative government in 1979, the inspiration for this paper was a retrospective study of the UK individual personal pensions product market between 1984 and 2014 conducted in 2014. In other words, the dataset for this paper is part of a larger study of the sector. To explore the connections between changes in regulation (at the industry level) and product design (the product level) between the period mid-1980s to mid-

[14] Disclosure regulations included standardised communications to consumers, including key product features, and quotations relating to investment returns. The primary aim was to enable easier comparisons between competing products for consumers

[15] An agency established under the Financial Services Act, 1986

1990s, we adopted an oral history data collection method (Thompson, 1988). The term 'oral history' often encapsulates various forms of in-depth life history interviews, biographical interviews, and personal narratives. Oral history is different from simple autobiography in terms of the degree to which the subject controls and shapes the process; oral history is interactive, drawing on another person's questions (Haynes, 2010; Thompson, 1988).

While oral histories deal with a person's past, and range widely over many different topics, in this study oral histories were used within the context of events that occurred within the individual personal pensions product market within the period of mid-1980s to mid-1990s. However, within those parameters, respondents were able to range across a number of different topics of interest or importance to them. In this way, I use the term 'oral history' to encapsulate in-depth personal narratives, which rely on open-ended questions to probe aspects of the narrative in order to maximise discovery. Oral histories are often used to give voice to those stories that would not usually be heard, or to verify or triangulate other forms of historical research using archives or other forms of secondary data, rather than as a method in its own right. However, our use of oral history follows that of Carnegie and Napier (1996:29) arguing that "oral history's greatest potential lies in its ability to capture the testimony of those effectively excluded from organisational archives", in other words the product developers and designers who were actually leading or involved in the changes to product design during the period.

In tune with the ideas of historical veracity (MacClean, Harvey & Clegg, 2016), open-ended interviews were conducted with thirty-one senior managers from six different companies[16] with first-hand experience of the period between mid-1980s to mid-1990s in a product development role at an insurance company or merchant bank. As such, our primary interest was to seek accounts from product developers employed in product development companies. Thus, our study falls short of being characterised as an 'industry study' as no respondents were recruited in other value chain segments such as fund management groups or financial intermediaries. The open-ended interviews were conducted in the second-half of 2014.

The structure of the interview was sub-divided into two distinct parts. In part one, the aim was to invite respondents themselves to demark the periodization of the study and to baseline the product design types within that period. To enable this, we asked respondents to (i) set out a

[16] Due to confidentiality, the names of the participants and organisations cannot be published

periodization that captured the beginning and end of the main impacts of the Thatcher-led deregulation agenda, and (ii) to assign generic product architecture/design[17] types to the periodization using stylised product design constructs from the literature[18]. The process used is an example of "temporal bracketing" (Langley, 1999) or "periodization" (Fear, 2014) that aims to identify meaningful time units within a stream of historical data. In our study, there was a significant degree of commonality of inductive periodization across the thirty-one respondents. However, we also decided, with the help of participants and an expert panel, to synthesise the thirty-one time-periods and generic product design types into a single 'master timeline' that reflected the generalities from the particulars and formed the structure of the final periodization used in the data analysis phase as follows in Table 1:

- Change period (two distinct sub-periods identified):
  - Mid to late-1980s
  - Mid to late--1990s
- Generic product types:
  - Mid to late-1980s: With-profits personal pension (non-modular)
  - Early to mid-1990s: Unit-linked personal pension (near-modular)

Table 1: Periodization and generic product types[19]

The change period and generic product type timeline served as a structure for part two of the interview. We asked open-ended questions directed towards the two discreet periods such as 'what was going on in this time period? 'what led to this change?', 'what was the result of this change?', and so on. Thus, the product design timeline and periodization provided a structure whereby an inductive logic was used to derive any key themes related to the product market. Errors of recall can permeate oral histories (eg. Thompson, 1988), however to minimise the

[17] As Ulrich (1995) discusses, products can have architectures – the blueprint for the way components fit together a whole

[18] Refer to Burton (2016) and Burton & Galvin (2016) for the product design typology used.

[19] A with-profits policy as a managed investment of equities, fixed interest securities, and often, property. There is no direct relationship between the premiums/contributions paid and the benefits paid. The 'returns' to the investor are actuarially calculated by reference primarily to the 'profits' made by the insurance company on its investments, and the smoothing mechanism employed. A unit-linked policy is also a managed investment but there is a direct relationship between the value of the managed fund and the units (or share) of the fund held by the investor. In other funds, payments into the fund buy units or shares which may go and down in value based upon the total value of the fund each day.

magnitude of these problems we drew upon the procedural safeguards suggested by Glick, Huber, Chet Miller, Doty and Sutcliffe (1990). First, the interviews focused on connections and changes that seemed important to the respondent and thus these tend to be recalled more reliably. Second, all respondents were senior managers who, by virtue of their positions, tended to be involved with, or close observers of, the important events and processes about which they reported. Third, to overcome issues associated with the 'distant' past, the sample consisted of respondents with first-hand experience of the events.

We then used template analysis to code the transcribed interview data. Template analysis is a distinct and flexible type of thematic analysis, first described by Crabtree and Miller (1992), later developed by King (1998, 2004) and as a method has gained traction in management studies, psychology, sociology and healthcare (see Waring & Wainwright, 2008). We followed an approach suggested by King and Horrocks (2010) in combining a matrix and template analysis method. We looked for themes that might inform existing theory, and were open to existing constructs that guided our work as well as emerging constructs. We wanted to understand the relationship between industry-level constructs (such as (de)regulation) and product-level design changes). The method allows themes to be coded to different units of analysis, and to different time periods, allowing us to examine the links between themes across time (Bucheli and Wadhwani, 2014;). According to Lippmann and Aldrich (2014), adopting an evolutionary perspective in the union of management/organisation and historical research may offer an integrative mechanism to enable a better understanding of specific contexts as well as the articulation of generalised processes that shed new light on theoretical development. The final templates are shown in tabular, hierarchal form in Tables 2 and 3.

Product themes	Firm themes	Industry themes
1. Component interdependence	1. Firm boundary determinants	1. Product market factors
1.1 Integrated fund components	1.1 Gains from integration	1.1. Market stability
1.2 Integrated advice	1.2 Governance inseparability	1.2. Here come the unit-linkers
2. Fund components	1.3 Knowledge specificity	2. Deregulation
	1.4 Absence of intermediate markets	2.1 PEPs
	1.5 Gains from trade	2.2 Tax incentives
	1.5.1 Capabilities	2.3 SERPS
		2.4 PP regulation
		2.5 FSA Act 1986

Table 2: Final template product, firm and industry themes: mid to late-1980s

Product themes	Firm themes	Industry themes
1. Component interdependence	1. Firm boundary determinants	1. Regulation
2. Component independence	1.1 Gains from integration	1.1 Pensions mis-selling
2.1 Fund component	1.1.1 Rents	2. Industry structure
2.2 Charges component	1.1.2 Capabilities	2.1 Unit-linked rate of adoption
2.3 Advice component	1.2 Gains from trade	2.2 Traditional provider consolidation
2.4 IT components	1.2.1 Rents	3. Changes in distribution structure
3. Interfaces	1.2.2 Capabilities	3.1 Demand for variety

Table 3: Final template product, firm and industry themes: early to mid-1990s

Findings

Mid1980s to late-1980s

In the mid-1980's, prior to the Social Security Act, 1986, and the Financial Services Act, 1986, in 1988, the product market can be characterised as fairly stable. The occupational pensions product market was dominated by insurance companies offering insurance-based occupational

schemes to SMEs. In addition, merchant banks offered self-administered, trust-based occupational schemes to the largest companies. As Hannah (1986) notes, the industry had already begun to fragment into specialised functions, such as administration/operations, fund management, and distribution. However, these functions, at least for insurance-based schemes were often owned (vertically integrated) within firm boundaries. One respondent highlighted that "I think it was just the era of insurance companies, people didn't tend to outsource things in those days. It was just after the black suit and bowler-hat phase of the City. That's how they'd always done it. And they'd always done it on an in-house basis".

From a product design perspective, insurance-based occupational schemes largely comprised of with-profits pensions – a design characterised by respondents as 'non-modular'. A number of respondents remarked "it was all intertwined, interlinked", "most components are interdependent with each other", "they're incredibly tough to change because everything's integrated, everything has an impact on everything else", "it was very hard to change, they are tightly-bound. You couldn't really see how any of those products were going to be de-constructed", and "There were no industry standards whatsoever". In contrast, self-administered, trust-based occupational schemes were often unit-linked in order to permit large employer clients access to a wider range of investment options[20] that were often available to different classes of employee (eg. Full-time worker, directors, etc). Although the occupational self-administered segment was dominated by merchant banks, a few unit-linked insurance companies[21] also offered self-administered schemes.

At the industry-level, by 1988 many new insurance companies began to enter the individual personal pensions product market. Respondents suggest that the market opportunity afforded by the new products, the financialization of markets, and the (de)regulation of product markets all played an influencing role. For example, the financialization of product markets – and the seeds of the subsequent pensions mis-selling scandal – is a recurring theme. For example, "In 1988 we had the introduction of n pensions. We had the Government advert 'Breaking the Chains'. They said 'get out of your defined-benefit schemes, because they're rubbish and you'll be able to understand personal pensions'. The context at the time was that there had been the

[20] In this section, I will use the term 'investment option(s)' to generically denote different types of investments such as collective investment schemes (or 'funds'), stocks, shares and/or other kinds of investment that are often made available within pension plans

[21] These unit-linked insurance companies, such as Skandia, were unit-linked from inception in 1979, and were one of the first of a new type of unit-linked insurance company to enter the individual personal pensions market with unit-linked product designs

'Big Bang; the stock markets had just opened up to the public; people were buying shares, and privatisation was king. And so, everybody was interested in making a fast buck on the stock exchange and the personal pension market effectively got behind that". The Social Security Act, 1986, enacted in 1988, also permitted consumers to redirect National Insurance contributions into their individual personal pension, as opposed to being allocated to SERPS. One respondent suggested "you have to remember a lot of them in the market [providers] got fired up by SERPs contracting out", and "tax relief at source, that was a huge swinger for many customers and fuelled demand for personal pensions".

As consumers were being urged by Government and the sector to take accountability and control for their own personal pension provision, "increasingly people were attracted to the idea of being responsible for their own futures and taking responsibility for their own financial affairs". There was also a motivation from consumers to participate in the stock market, "every week there was a new IPO. There was an increasing interest in the population being responsible for their own wealth management. And I think unit-linking in pensions was partly a reflection of that trend". According to one respondent: "Because of smoothing and exposure to fixed interest investments, with-profits investments just didn't offer the potential upside of unit-linked funds linked to the stock-market and people didn't want to miss out on the upside". Another respondent recalled: "Stock markets sort of kept on going up and up and up. So, insurance companies could sell on the basis of 'look at our equity funds – vroom!' Fantastic, and so it all started going into unit-linked". As a consequence, by the late-80s the concept of unit-linked personal pensions had permeated the sector. As one respondents suggests: "By the late-'80's, there was an increasing trend of more investment choice becoming available through the unit-linked route" and "After 1988, most personal pensions tended to be unit-linked".

The disclosure and depolarisation regulations of the Financial Services Act, 1986, also had far-reaching consequences. In the early to mid-1980s, financial services products, including insurance-based occupational pensions, were often sold by tied advisors who were employed by the insurance company - another facet of vertical integration in this period. As one respondent recalled, "In the early-1980s, tied sales forces were common, so you were looking at something much more vertically integrated. It was expensive to build but at least you got all of the business". Following depolarisation, distribution was outsourced to independent financial advisers and by the early-1990s (as pensions mis-selling started to bite) few tied advisers were left in the sector. Depolarisation had two main impacts. First, regulations embodied in the

Financial Services Act, 1986, significantly increased the risks and costs associated with internal ownership and management of the activity due to the compliance and monitoring costs (and later the compensation costs associated with pensions mis-selling). Second, regulatory standards codified the nature of market contracts between insurance companies and independent financial advisory firms, thereby reducing contracting risks. As one respondent recalls: "a tied sales-forces automatically carries risk and fixed costs. From that point of view, if you are selling as well as administering as well as running funds, vertically integrated, you carry risk and cost in all areas. Whereas, if you are segmenting the value chain and just focussing on a key component, such as product design, there's still money to be made by specialising in a certain part of that value chain. That's why we switched to using independents".

The pensions mis-selling scandal is another key factor that led insurance companies to outsource distribution to independent financial advisors. Fines from pensions mis-selling, combined with the increased costs of regulation and compliance, led many insurance companies to downsize or eliminate their directly owned tied advisors by the early-1990s. With high commissions being paid to sales people (to gain market share), this led to many examples of unethical practice. One respondent recalled: "People were told you need a personal pension, come out of SERPS, come out of your all-singing, all-dancing, occupational scheme, where you take none of the risk, where your employer takes all the risk, you have none of the downside, you're gilt-edged pension with inflation-linking for the rest of your life, you don't want that, you want a personal pension where you're in control of it". Another respondents remembered: "In the personal pensions market, there were a lot of high commissions, a lot of scandals – people going to jail, it was a very cut-throat business, and it was a scandal that ultimately cost the industry billions in compensation. Companies completely disappeared. The compensation was so great that they just went under. It was a terrible mess and a lot of the sales people were villains basically".

However, as the speed of the shift towards using independent financial advisers as the primary method of distribution increased, the demand for more variety in investment options also increased – providing further impetus for unit-linked product designs. As a respondent explained: "Independents sell products based on providing more sophisticated investment advice to customers. So, the shift is starting to get into investments. If you have only got a with-profits fund to sell, what's the IFA got to do? He can't really justify a greater commission if he can only actually recommend that one fund". In other words, demand for variety in investment

options from independent financial advisers – as well as consumers - also influenced, or had knock-on design consequences, for individual personal pension products and the move towards a near-modular design in the early to mid-1990s.

Early-1990s to mid-1990s

By the early to mid-90s the demand for increased variety in investment options dominated product development activity. Thus, many insurance companies turned to external fund management groups to source a range of different investment options and asset classes that would appeal to consumers and independent financial advisers. As one respondent recalls, "what we'll never be able to do is be a top investment group in every aspect for all scenarios; so what we want to do is to offer expertise that we don't have, from fund management groups who know better how to manage money. The hypothesis was that you would not get as good investment performance as you would if you outsourced to people who are experts in fund management in different asset classes and different countries". Another respondent emphasised the need to access superior investment expertise from fund management groups: "We didn't outsource because we suddenly had this blinding flash of insight – we did it because we had an absolutely terrible investment record. Our capabilities were limited. In the late-80s and early-90s people started saying maybe in-house insurance company fund management guys aren't the best people to manage our money. We want more oomph".

At the same time, scale economies were critical in making the outsourced business model work. As a few respondent remembered: "the margin that we had to give away was negotiable downwards on a growing basis" and "Initially, we paid the fund managers too much. We got wise to that and we squeezed them down and down. So we were retaining a very significant part and what we did was we expanded the cake. So it became much more profitable. So we made lots of money during that time". A further respondent highlighted the opportunities for differentiation and competitive advantage in providing access to numerous investment options: "It wasn't all a cost-driven thing. There's a marketing opportunity here, there's an opportunity for us to differentiate what we do as opposed to what other people do, produce some more value for the customer and therefore gain market share so ultimately get a return for the shareholder". To acquire scale economies, speed to market became a key strategic issue to enable faster plug and play of investment options. For instance, "we don't want it to cost twice as much because you're componentising it, but it's not actually about cost, it's the timescale we're worried about really. I think cost and time were embarrassing, you felt like a big clunky

organisation, it takes a long time to get something to market, losing market share. So I think time to market was pretty key. The idea of a componentised model would make things easier and more attractive and we could just link these components together to make the whole development easier".

However, despite the importance of speed, the increase in the variety of investment options was initially quite limited owing to the absence of standards to connect investment options to the product, limiting modularisation. For example, "In the early 90s, you needed more than just a with-profit fund, and commonly you would have four funds or five unit-linked funds of different asset classes or geographical areas". However, the pace of progress in adding additional investment choice was quite challenging. One respondent recalled the IT challenges: "I mean in a big monolithic IT system, it's not very easy to do because you have to commit major surgery to cut the component out of the system. I can definitely remember that adding funds was eventually made a lot simpler by agreeing standards and processes with external fund management groups". Thus, the growth in investment variety increased only as standards emerged between insurance companies and fund management groups to permit easier 'plug and play' of investment options into the IT system. In the early-90s, industry standards had not yet emerged, however by the mid-90s, standards were permeating across firm boundaries. For example, "there were some specific standards. You give us this sort of information and we can put your fund into our system" and "there was also more standards inside the system, one bit talking to another, so I think the companies were building interfaces to try and componentise the system".

With standards to connect investment options to the product emerging, by the mid-90s some insurance companies had extended the range of investment options "from just one with-profits or managed fund to around 250 because our own internally-managed investments had been so incompetently run". As many respondents recalled, product variety was increasing fast: "During the early-90s, the variety of fund increased significantly, in that time, personal pensions were offering a small range of 5 to 10 external funds and by the mid-90s that developed and evolved to quasi-open architecture. There was an element of plug-and-play, but within a framework" and "In '90 to say '92 products would have 15 or so fund links, and then by '95 or '96 maybe to a range of 300 funds".

Discussion

The (de)regulation agenda of the Conservative government in the mid-to-late 1980s was a pivotal and critical change period in the development of the UK individual personal pensions product market. The Social Security Act, 1986, and Financial Services Act 1986, enacted in 1988 enabled a new individual personal pension regime and ultimately transferred much of the obligation for pension provision from the state to consumer. While the agenda was heavily politicised, regulation had a significant influence on the architectural choices of product design in the sector, which are arguably still playing-out today. Moreover, regulation in the decade that followed, such as the Stakeholder Pensions regime (2001) and the pensions simplification agenda in 2006 both led by the then Labour government can all be interpreted as further attempts by Government to better regulate the industry and ensure more flexibility, choice and protection for consumers.

The legislative and regulatory environment did not directly regulate product design. However, this paper has shown how the (de)regulation agenda influenced changes in product design: an evolution from a 'non-modular' with-profits individual personal pension in the mid to late-1980s towards a 'near-modular' unit-linked individual personal pension by the early to mid-1990s. We argue that both regulatory and emergent standards and the context of financialization of product markets in this period were key enablers in this transition phase. First, we argue that the disclosure and depolarisation regulations in the Financial Services Act, 1986, ushered in a set of compliance standards that increased the risks and costs of ownership of distribution for insurance companies. Subsequently, the risks and costs of owning distribution became too great, forcing many providers to adopt an outsourced distribution model to independent financial advisers who were responsible and liable to the regulator for their own advice (ironically, many independent financial advisers were ex-employees of the insurance companies). The pensions mis-selling scandal in the early-1990s added further traction to this development. From a modularity perspective, we argue that the depolarisation and disclosure regulatory standards influenced distribution to become componentised, or made 'modular', as the standards governed the coordination of the market contract (Sanchez and Mahoney, 1996; 2013)

Second, we argue that the increase in the variety of investment options available within individual personal pensions was significantly influenced by the context of the financialization of product markets and resulting demand for exposure to national and international stock markets from consumers and independent financial advisers. Unit-linking a wide range of

investment options to individual personal pension products, and the significant promotion of personal pensions by the Conservative government, can be seen within the wider context of the IPOs, privatisations, home ownership, and share-ownership in this period in the UK (eg, Moss, 2000) and throughout the US (Krippner, 2012). Furthermore, we argue that the emergence and definition of product standards between insurance companies and fund management groups acted as a facilitator for the exponential increase in investment options within individual personal pensions between the late-1980s and mid-1990s, without which the increase in investment options would have been much slower. In other words, the context of financialization and the resulting development of emergent product standards for connecting a wide range of investment options to the product provided the impetus for further modularisation to occur.

Our paper extends current historical research on the UK pensions market by describing the relationship between the (de)regulation and the context of the financialization agenda of the Conservative government, led by Margaret Thatcher, and its relationship with changes in product design. Prior studies in the UK have tended to focus on the development of the occupational pensions product market (eg, Hannah, 1986) or on case studies of major competitors in the sector (eg, Moss, 2000). However, our main contribution lies in examining the role of (de)regulation and financialization as *modularisation processes*. The increasing modularisation of individual personal pension product design between the mid-1980s and mid-1990s provides further support for the body of scholarly work that has examined modularisation processes in a number of different empirical settings (ie, Funk, 2008; Galvin & Morkel, 2001; MacDuffie, 2013). However, many prior empirical studies in the modularity tradition have ignored the role of (de)regulation - a key gap in the literature identified by Jacobides (2005). From an industry level perspective, we also show how modularisation at the product level is also associated with the breaking apart of vertically-integrated industry structure – historical evidence to further support the idea of a 'mirroring hypothesis' between the architectures of products and industries (eg. Sanchez and Mahoney, 1996; MacCormack, Baldwin & Rusnak, 2012).

Limitations

With theoretical implications aside, this paper has some limitations. First, we rely upon oral histories from thirty-one senior managers as our data source. We have not attempted to verify or triangulate their accounts with archival or secondary data. Our primary aim in this study was

to reveal new discoveries about the potential relationship between (de)regulation and product design from actors who were actually involved in interpreting the regulation in real-time and leading product design changes, and, therefore, our interviews provided access to primary data unavailable by any other methods. Nonetheless, we would welcome further future studies examining the relationship between (de)regulation and product and/or industry change using archival and secondary sources. We also recognise that the system property of modularity is a matter of degrees (Schilling, 2000). Product designs are unlikely to be fully 'non-modular' or 'fully modular' and often the degree of modularity a system exhibits sits between these two polar extremes. Nonetheless, our generic product design types 'made sense' to respondents and their oral histories provide evidence of the trajectory to a 'more modular' product design during the period.

More generally, we acknowledge our research and theoretical contribution are context-specific, and generalisations of the relationship between (de)regulation and product modularisation would require further research. In fact, it may be the case that (de)regulation in other product market settings could conceivably be associated with less – not more -modularity. Given the importance of (de)regulation to many diverse product markets, further historical research in this field would be valuable to practitioners and policy-makers.

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THATCHERISM AND DEREGULATION:
A PERSPECTIVE ON INDUSTRY EVOLUTION

Abstract

The UK financial services deregulation agenda of the Thatcher government elected in 1979 is an important and critical industry change point that has attracted only limited attention from management and historical research scholars. Furthermore, how deregulation in this era influenced the evolution of product design and industry structure remains ripe for exploration. This lack of attention is rather puzzling given the extensive literature on industry structure, and the significance of the financial services industry to the broader UK economy. In this paper, we examine the UK individual pensions market between the critical change points of the mid-1980s and mid-1990s to examine its impact on architectural choices of product design and industry structure. We adopt a retrospective, qualitative research design with participants with first-hand experience of the change period, and find that deregulation reforms enabled a set of regulatory standards that came to define how products were designed embedding modular characteristics. Moreover, regulatory standards broke apart the vertical scope of the industry, setting in train a set of 'centrifugal' specialisation forces that arguably continue until the present day.

Keywords: Pensions; Industry evolution; Specialisation; Modularity; Deregulation

Introduction

Management and organisation research has often ignored the importance of history (Clark & Rowlinson, 2004; Kieser, 1994; MacClean, Harvey & Clegg, 2016; Zald, 1993), resulting in calls to 'take history seriously' (Kipping & Usdiken, 2014). In fact, history is of critical importance if we subscribe to the axiom that past strategic actions influence present and future strategic actions. According to Bryant & Hall (2005), there is much merit to incorporating history, not as a static retrospection, but as a dynamic and evolutionary process into social sciences research. Moreover, Lippmann and Aldrich (2014) contend that adopting an evolutionary perspective in the union of management/organisation and historical research may offer an integrative mechanism to enable a better understanding of specific contexts as well as the articulation of generalised processes that shed new light on theoretical development.

In the management/organisation literature, an historical and evolutionary perspective is often unstated or implicit, but there is often more history than meets the eye (Kipping and Usdiken, 2014). MacClean, et al. (2016) argue that organisational theories that exhibit an implicit historical awareness include path dependence, the resource-based view of the firm, dynamic capabilities, organisational ecology, and strategic change, to name but a few. Our theoretical lens – modularity - could equally be added to this list. As a general systems theory (Schilling, 2000), modularity has often been researched as a static, cross-sectional property of organisational systems, such as industries, organisations and products (see for example Campagnolo & Camuffo (2012) for a review). In contrast, in this paper we follow scholars such as Burton (2016), Sanchez (2008), and Galvin and Rice (2008) by conceptualising modularity as a dynamic architectural property of organisational systems. Framed in this way, the modularity lens helps us to understand connections between events across time, but also within the systems hierarchy, such as how changes in one level of the hierarchy (regulation changes or demand factors) impacts other levels in the systems hierarchy (product design). For these kind of connections to emerge and play out, a retrospective, historical lens would seem not only to be desirable, but essential.

Our case is an example of a 'sedimentary effect' in the processes of product and industry change "…whereby the significance of an event may only become apparent much later, looking back, discernible in underlying structures and practices" (MacClean, et al., 2016:623). By extending our retrospection back to the mid-1980s, we aim to shed light on the commonalities and differences between time frames in order to articulate the general from the particular (Lippmann & Aldrich, 2014). The case of the UK individual pensions product market is instructive in illustrating how the seeds of today's contemporary regulatory environment, open and modular architecture product design, and highly-specialised and fragmented industry structure, can be traced back to the Thatcherite pensions deregulation initiatives in the mid-1980s (Burton, 2016). The financial services industry, and more specifically the individual pensions market, is an under-researched area in management/organisation and historical research despite its importance to the UK economy. Moreover, modularity scholars have largely ignored such 'intangible' industries, instead emphasising manufacturing industries such as motor vehicles (MacDuffie, 2013) and air-conditioning systems (Furlan, Cabigiosu & Camuffo, 2014). Perhaps one reason for this is the implicit complexity of financial products and use of technical jargon in the industry that permeates participant responses or secondary sources. Similarly, few industry studies, with the notable exceptions of the studies of vertical scope in the US mortgage banking market (Jacobides,2005) and the UK insurance market (Webb & Pettigrew, 1999), have examined product design or industry change processes in financial services product markets. This paper aims to contribute to this gap.

The inspiration for this paper was a retrospective study of the UK personal pensions industry between 1984 and 2014 conducted in 2014 in order to identify 'integrative themes' (King, 1998; 2004) not only across time, but also the connections and changes within the general pensions systems hierarchy (product, firm and industry levels of analysis). In general terms, we found that changes at one level in the systems hierarchy (such as exogenous regulatory changes) often 'played out' at another level in the systems hierarchy (such as endogenous product design) in a future time period, emphasising further the need for a temporal aspect to management/organisation research. Following MacClean, et al.,(2016), our perspective on historical research is one of "dual integrity", aiming to exhibit authenticity through theory development and historical veracity (p516).

The contribution of this paper, then, is to illuminate how exogenous change and endogenous strategic action are connected across time. By paying close attention to the connections between different levels of analysis in the pensions systems hierarchy we show how the emergence of regulatory standards, when combined with supply and demand-side factors, created the context for more modular architectural choices in product design and which had significant impacts upon industry structure. The paper is structured as follows: next, we elaborate a qualitative research methodology combining matrix and template analysis to illuminate the connections within the pensions systems hierarchy within and across time. Finally, we conclude with a discussion and closing remarks on its potential contribution to the literature.

Thatcherism and deregulation

With the election of Margaret Thatcher in 1979, the financial services industry in the UK was subject to far-reaching political and regulatory changes with significant and long-lasting consequences. These changes to the industry landscape redefined the structure of the regulatory framework but it also affected the structure and competitive basis of the industry and the types of firms competing within it (Burton, 2016). Prior to the 'Thatcherite revolution', many UK employees saw security and prosperity as dependant – at least in part – on a 'paternalistic' state (Hudson, Keasey & Littler, 1996); a view challenged and overturned by the Thatcherite belief in deregulated markets, competition and self-responsibility.

Embodied in the symbolic 'Big Bang' of October 1986 (Booth, 2015), the financial services industry was put at the heart of the deregulation agenda; the provision of private pensions and endowments; widening share ownership; tax-efficient products such as Personal Equity Plans (PEPs), Tax-Exempt Savings Accounts (TESSAs), access to wider personal and mortgage credit; and deregulation of banks and building societies. Deregulation in financial markets occurred in sync with a very strong economic and stock market outlook that ultimately created a boom for the demand of financial products (Burton, 1994). The stock market had performed very well making equity-backed investments seem especially attractive to consumers. Furthermore, house prices had escalated, and boomed in 1988

following the "MIRAS sale[1]" as did the sale of investment-backed mortgage repayment products.

In 1985, however, the government issued a White Paper (Financial Services in the United Kingdom) aimed at increasing standards and consumer confidence in financial markets. As Hudson, et al., (1996:218) note, the report noted that "For investors to have confidence to venture into the market, measures are needed to reduce the likelihood of fraud and to encourage high standards in the conduct of investment business". The measures outlined in the White Paper formed the basis of the subsequent Financial Services Act 1986 that created the structure of a new regulatory and compliance regime (until later replaced by the Financial Services and Markets Act 2000). The principles of the Act sought to "…free up the market and to come down heavily on malpractice" (Hudson, et al., 1996:218). The Financial Services Act 1986 was wide-ranging (and a detailed discussion is beyond the scope of this paper), however one aspect introduced regulation of the sale of retail financial products (including pensions) for the first time. The relevant regulatory organisations had the initials FIMBRA and LAUTRO and would authorise individuals and organisations, and develop rules and standards, and this included the requirement to provide "best advice" to consumers. A financial intermediary (known as an 'advisor') had to demonstrate that it had sold the most appropriate product to a customer or face fines, and any financial benefits received (such as commissions) for the sale of products had to be disclosed to the consumer, both before the sale and after it during a cooling-off period. Furthermore, financial intermediaries could only sell products that they were authorised to do so, and 'depolarisation' meant that an advisor was either independent who could then advise on all products in the market, or tied to advising on the products from just one company. Thus, the regulatory responsibility for advice was more clearly-defined as being the responsibility of the 'advisor'.

Despite these reforms, the general thrust of the reforms of the then Conservative government encouraged consumers to place their future security and prosperity in an unfettered financial services market, rather than look to towards the State for support, except as a safety net of last resort. Within a few years, however, consumer trust and

[1] MIRAS, mortgage interest relief at source was removed, but was pre-announced by the then Chancellor Nigel Lawson, whereby double tax relief was available for mortgage completions before the deadline.

confidence in the market was severely undermined as pensions-mis-selling scandals came to the fore[2]

The deregulation reforms of the mid-1980s had a significant effect upon pension provision in the UK, the focus of our paper. The UK pensions product landscape can be traced back to 1948, based on the Beveridge Report, and was a simple state-run 'pay-as-you-go' scheme, with flat-rate contributions. Providing a benefit of only around 15% of average earnings in 1960 (Taylor-Gooby, 2005), a pensions industry developed to offer occupational pension schemes for better-off employees so that directors/managers could contribute to a pension to supplement the benefits offered by the state pension and protect their standard of living.

By the 1970's, however, many pensioners were left on or below a subsistence-level income prompting the then Labour government to introduce the Social Security Act 1975 to provide a second-tier state pension. The new second-tier pension – known as State-Earnings Related Pension Scheme (SERPS) - was designed as a compulsory contributory pension based upon earnings-related National Insurance contributions, providing additional benefits of around 20% of earnings (Taylor-Gooby, 2005). Members of occupational pensions schemes, however, were permitted to 'opt-out' of the second-tier pension in return for a lower National Insurance rate, essentially preserving the early marketization of the occupational pensions industry. At the same time, the basic state pension began to be index-linked to the higher of earnings or prices, providing additional security for lower earners (although this was later removed in 1988 under the Thatcherite reforms).

By the mid-1980s, the occupational market for pensions had already begun to expand. Higher-income workers, such as directors or managers, sought access to a third-tier pension, instead of or in addition to SERPS, in what became known as Executive Pensions – a pension linked to a company and used to incentive directors and key employees in addition to the standard occupational scheme. Companies were attracted to paying-into executive pensions on behalf of key employees as they could invest the pension contributions into

[2] Other scandals occurred such as endowment mis-selling

their own company in order to facilitate growth (a practice that came to haunt the industry via the Robert Maxwell saga), use executive pension provision as a method to attract and retain key employees, as well as determine who was invited to join the scheme and who was not, and to vary any contributions as they saw fit.

First-tier pension	Pay-as-you-go state pension (indexed until 1988)
Second-tier pension	Pay-as-you-go SERPS (in decline after 1988) or Occupational Scheme
Third-tier pension	Executive pension

Table 1: UK pensions – 1980s

By 1979, the new Thatcher-led Conservative government sought to expand the private provision of pensions shown in Table 1. It was argued by the then Conservative government that demographic changes would result in an unsustainable and unaffordable rising cost of providing the first and second-tier state pension. The Fowler pension review was set up in 1983 and its outcomes, embodied in the Financial Services Act 1986, led to a reduction of benefits in the second-tier state pension (SERPS) and the provision of an optional, but highly tax-incentivised, individual personal pension. The tax relief and national insurance rebate incentives were so attractive – infamously marketed as 'breaking the chains' by the Conservative government – that by 1993 5 million people instead of the estimated 0.5 million had taken the opportunity to establish a personal pension (Taylor-Gooby, 2005). At the stroke of a pen, the Thatcherite government had transitioned much of the state provision of pensions to the private sector following the free market ideology of her government. In other words, the state would become the de facto pension provider of the poor, and the majority of employees would bear the risks associated with market fluctuations in exchange for 'choice' and 'control'.

The deregulation of pensions became, however, a prominent issue in the early-1990s. The stock-market crash of 1987 had already begun to dampen consumer enthusiasm for equity-backed investments, and City institutions had accusations of insider dealing and concerns about the conduct of M&A activity (such as the Guinness affair). The housing market had

begun to spectacularly bust following the removal of mortgage interest relief at source (MIRAS), and concerns were already being raised about mortgage endowment mis-selling. In pensions, the Robert Maxwell case, together with allegations of pensions mis-selling scandals came to the further undermine the Thatcher reforms.

The scandals centred around the mis-selling of personal pensions to consumers who were persuaded by commission-hungry advisors to opt-out of the second-tier state pension (SERPS) or final salary occupational pension schemes when it was not in their interests to do so, disregarding the 'best advice' principle. The Goode committee recommended stronger regulation over personal and occupational pension schemes, and a programme of compensation for those affected by mis-selling. It was not, however. to the mid-to late-90s that many insurance companies were subsequently fined for their unethical practice. Despite the delay in fining the firms for unethical practice, the deregulation of the pensions industry and subsequent mis-selling scandal contributed to significant changes to industry structure and architectural choices in product design by the early-to-mid 90s which have continued to the present day.

Method

To explore the connections between exogenous change and endogenous strategic action, interview data was collected at three different units of analysis in the pensions system hierarchy: (i) the product, (ii) the company, and, (iii) the industry. In tune with the ideas underpinning historical veracity (MacClean, et al., (2016), semi-structured interviews were conducted to provide richness, and the potentiality for a range of different explanations and perspectives unavailable from secondary data sources. Moreover, while some secondary archival data sources were available (such as data relating to changes in regulation), additional secondary sources that illuminate how changes in regulation might be connected to changes in the wider pensions system hierarchy were unavailable or severely limited. For example, the pension products available in the time-period were 'designed' in a pre-computerised age and, as a consequence, product specifications were often held as tacit knowledge by product developers and not formally codified.

Given this limitation, interviews with thirty-one senior managers from six different firms

with first-hand experience of the period mid-1980s to mid-1990s in a product development or strategic role was conducted in the second-half of 2014. The structure of the semi-structured interview was sub-divided into two distinct parts. In part one, the aim was to invite respondents to baseline the product design types and bound the period of the study. To enable this we inductively asked respondents to set out a periodization that captured the main impacts of the Thatcher deregulation era and to assign product types to the time-period using stylised product design constructs from the literature (see Burton, 2016 and Burton & Galvin, 2016).

In characterising historical research of this type, an additional key question is how a research project treats time (Clark & Rowlinson, 2004; Bucheli & Wadhwani, 2013). The construction of a product design timeline is an example of "temporal bracketing" (Langley, 1999) or "periodisation" (Fear, 2014) that aims to identify meaningful time units within a stream of historical and retrospective data. In our study, there was a significant degree of commonality of periodization across the thirty-one respondents. However, we also decided, with the help of an expert panel, to synthesise the thirty-one inductively-generated time-periods and product types into a single, unified 'master timeline' that reflected the generalities from the particulars and formed the structure of the final periodisation used in the data analysis phase as follows:

- Change period: mid-1980s to mid-1990s
    - Two sub periods
        - mid to late 1980s and early to mid-1990s
- Product type:
    - Mid to late-1980s: With-profits pension (generically a 'closed and integrated' or 'non-modular' type)
    - Early to mid-1990s: Unit-linked pension (generically a 'closed and modular' type)

The periodization and product type timeline served as a structure for part two of the interview. The periods enabled open questions to be directed towards discreet periods and events such as 'what was going on in this time period? Furthermore, questions could be directed to particular transition points from one product design type to another, or from one industry structure type to another, such as 'what led to this change?', 'what was the result of this change? Thus, the product design timeline and periodization provided a structure whereby an inductive logic was used to derive any key themes related to different units of

analysis within the pensions systems hierarchy. Such a matrix-style approach to drawing out themes from the interview data also allowed us to compare how themes were connected within the systems hierarchy, but also how they played out across time.

Errors of recall can permeate personal, inductive event histories, however to minimise the magnitude of these problems we drew upon the procedural safeguards suggested by Glick, Huber, Chet Miller, Doty and Sutcliffe (1990). First, the interviews focused on connections and changes that seemed important to the respondent and thus tend to be recalled more reliably. Second, all respondents were senior managers who, by virtue of their positions, tended to be involved with, or close observers of, the important events and processes about which they reported. Third, respondents were recruited from six different organisations, and, fourth, to overcome issues associated with the 'distant' past, the sample consisted of respondents with first-hand experience of the events.

We used template analysis to thematically code the interview data. Template analysis is a distinct and flexible type of thematic analysis, first described by Crabtree and Miller (1992), later developed by King (1998, 2004) and as a method has gained traction in management studies, psychology, sociology and healthcare (see Waring & Wainwright, 2008). We followed an approach suggested by King and Horrocks (2010) in combining a matrix and template analysis method. The use of a matrix to structure (rather than code) the data is similar to the matrix approach pioneered by Miles and Huberman (1994) where data is tabulated to different units of analysis to facilitate comparisons and connections both between and across levels of data. The matrix served to enable textual interview data to be inductively coded to each cell. The method also allowed themes to be coded to different units of analysis in the systems hierarchy, allowing us to examine the links between themes across time (Bucheli and Wadhwani, 2014; Pettigrew, 1990). Perhaps the key point to emphasize is that the combination of matrix and template analysis allowed us to examine both exogenous and endogenous change processes at different levels of analysis, as well as their temporal interconnectedness across time. The final templates are shown in tabular, hierarchal form in Tables 2 and 3.

Product	Firm	Industry
1. Component interdependence	1. Firm boundary determinants	1. Product market factors
1.1 Integrated fund components	1.1 Gains from integration	1.1. Market stability
1.2 Integrated advice	1.2 Governance inseparability	1.2. Here come the unit-linkers
1.3 Integrated IT mainframes	1.3 Knowledge specificity	2. Deregulation
2. Optimised	1.4 Absence of intermediate markets	2.1 PEPs
3. Emerging fund components	1.5 Gains from trade	2.2 Tax incentives
3.1 Reduced charges interdependence	1.5.1 Capabilities	2.3 SERPS
		2.4 PP regulation
		2.5 FSA Act 1986

Table 2: Final template product, firm and industry themes: mid to late-1980s

Product	Firm	Industry
1. Component interdependence	1. Firm boundary determinants	1. Regulation
2. Component independence	1.1 Gains from integration	1.1 Pensions mis-selling
2.1 Fund component	1.1.1 Rents	2. Industry structure
2.2 Charges component	1.1.2 Capabilities	2.1 Unit-linked rate of adoption
2.3 Advice component	1.2 Gains from trade	2.2 Traditional provider consolidation
2.4 IT components	1.2.1 Rents	3. Changes in distribution structure
3. Specialised interfaces	1.2.2 Capabilities	3.1 Direct sales regulation
	2. Simplified information exchange	3.2 Pace of intermediation
		3.3 Demand for component variety

Table 3: Final template product, firm and industry themes: early to mid-1990s

Findings

In the mid to late-80s, with-profits personal pensions were offered mainly by insurance companies and the firms in the product market were typically vertically integrated, owning all the activities such as product design, operations, fund management, and distribution/sales. However, the Thatcherite deregulation initiatives provided a set of regulatory 'standards' for the provision of distribution/sales activities that attracted new 'advisors' to the product market. Fuelled also by demand characteristics, new entrants also emerged in the manufacturing and fund management layers of the market. A simplified value chain diagram in shown in Figure 1:

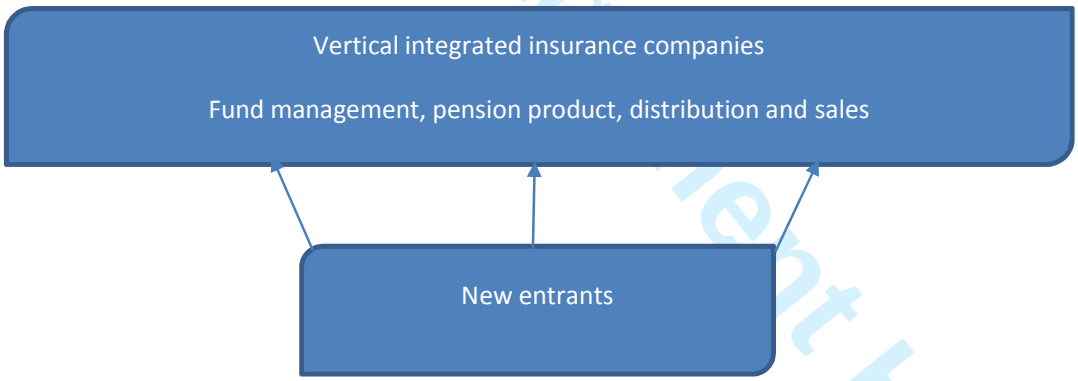

Figure 1: Simplified value chain (cmid-1980s)

Moving forward to the early to mid-1990s, the new entrants into all layers of the market had caused significant industry fragmentation and a breaking-up of the vertical structure of the industry, shown in figure 1. The vertical fragmentation of the industry structure was accompanied by a 'modularisation' (Sanchez and Mahoney, 1996; Sanchez, 2008; Schilling, 2000) in the architectural choices of product design, as a 'componentisation' of the existing pension product emerged. The enforcement of a set of regulatory 'standards' provided the

impetus for a transition in the architectural choice of product design from a 'with-profits personal pension' (non-modular) to a 'unit-linked personal pension' (partly modular).

To examine how regulatory standards and demand characteristics affected the pensions system hierarchy, we now turn to how modularisation became embedded in the componentisation of the investment components and distribution/advice components within the product system, as well as the how these drivers were connected to an evolution towards fragmentation and specialisation in the industry structure.

Modularisation of investment components

Incumbent insurance companies designing with-profits personal pensions had scale-efficient production costs but few (if any) prior contracting relationships with fund management groups which increased the their perception of opportunism in sourcing investment components in the intermediate market which, in turn, provided an efficiency-based force in favour of an integrated with-profits pensions design, vertical integration and the status quo. One respondent commented: *"so you tend to have a with-profits fund. The investment links were very limited and they tended initially to be in-house investment management"*, while another respondent observed: *"I think it was just the era of insurance companies, people didn't tend to outsource things in those days. It was just after the sort of like black suit and bowler-hat phase of the City. That's how they'd always done it. And they'd always done it on an in-house basis"*.

On the other hand, the new entrants in the upstream fund management segments had superior productive capabilities owing to their specialisation and global reach, and hence greater incentives to initiate new technological developments, such as investing in component development and offering more 'exotic investments in tune with the emerging consumer appetite and demand characteristics. Interviews suggest, however, that with-profits insurance companies perceived that their own internal productive capabilities in fund management was also quite strong and, as a consequence, no significant benefits from market contracting were perceived as appropriable from sourcing investment components outside the firm. In other words, incumbent insurance companies perceived that Internal Production Costs (IPC) < External Production Costs (EPC) + Risk of Opportunism (RO) and hence the with-profits pensions product and vertical scope remained integrated. One respondent recalls the key issue: *"Cost was the issue. More cost to use suppliers. It was our*

product, on our system, it was our sales force selling it, our funds, managed internally, and you can manage the costs better that way. As soon as you start outsourcing different components, you've got the initial costs of building the things, and allowing everything to talk to each other, and you're kind of exposed to the costs of that third party, you don't have the same control over those costs. It wasn't easy back then for you to change suppliers and you were exposed to risks".

For the new entrant unit-linked insurance companies who intended to compete with the incumbents, there is a different story. From the 1970s to mid-1980s a specialist third-tier pension product called an 'Executive Pension' was gathering momentum. As one respondent recalled *"An Executive Pension was a personal pension that tended to be targeted at either the owners of businesses or some of their key employees"* and this niche market segment was dominated by smaller unit-linked insurance companies who offered a greater range of investment component/options to a more discerning and higher net worth consumer. Deregulation and fast-changing consumer attitude towards equity-backed investments, fuelled by the 'share-owning democracy' rhetoric of the Thatcherite years, provided the trigger for the new unit-linked insurance companies to leverage their experience in designing and administering 'executive' propositions into the emergent mass market of individual personal pensions and take on the incumbent with-profits insurance companies. As one respondent highlight *"in about 1980, the end of currency restrictions and .all of a sudden ooof, executive pensions took off…….and by the late-'80's, there was an increasing trend of more investment choice becoming available through the unit-linked route in the mass market to the extent that by 1988 everything was set to be unit-linked with lots of choice at the beginning".*

New unit-linked insurance companies entered the mainstream individual personal pensions market with few existing productive capabilities in fund management. One Investment Director highlighted that *"we didn't outsource because we suddenly had this blinding flash of insight – we did it because we had an absolutely terrible investment record. Our capabilities were limited. In the mid and late-80s people started saying maybe in-house insurance company fund management guys aren't the best people to manage our money. We want more oomph".* As such, there was a weak correlation in the productive capabilities of unit-linked insurance companies and specialised upstream fund management groups, resulting in a strong upstream comparative advantage revealing significant benefits from market contracting. The prior contracting relationships between unit-linked insurance companies and fund management groups in the context of Executive Pensions also reduced perceived threats of

opportunism. As a result, new unit-linked insurance companies were able to offer a significant range of investment options from a range of global fund management groups from the very start and take advantage of the burgeoning consumer demand for equity-based investments and the demand characteristics of the market fuelled by deregulation and tax-incentivisation.

However, by the mid-1990s most with-profit insurance companies had U-turned and were market sourcing investment components from upstream fund management groups. So what changed? Initially, with-profits insurance companies relied upon their own internal productive capabilities to try to play catch-up and replicate the increased investment variety offered by the new unit-linked entrants in order to mitigate against selection forces and a loss of market share. As one respondent from a with-profits company remarked: *"what we'll never be able to do is be a top investment group in every aspect for all scenarios; so what we want to do is to offer expertise that we don't have, necessarily on a wider basis from fund management groups who know better how to manage money. The hypothesis was that you would not get as good investment performance as you would if you outsourced to people who are experts in fund management in different asset classes and different countries".*

As consumer appetite for equity-backed investments grew and demand characteristics grew more favourable, the problem, however, compounded: *"with-profits insurance companies were trying to research Japanese equities from an office in the UK, how on earth do you recommend a buy or a sell of a Japanese equity if you've never been to see the directors of the firm? You probably aren't big enough to even pick up the phone and talk to them, they'll probably go: "who the hell are you?" So, actually what you need is either local fund managers in the various markets for equities or firms who are experts in a particular asset class. Whereas, we had this 'jack of all trades' fund management business sat inside the insurance company".* Thus, the presence of regulatory 'standards' acted to standardise the terms of the market contract and reduce the threat of opportunism. When combined with intense competitive selection forces and demand-side factors, the process of modularisation of the investment components had shifted the economics of market contracting to IPC > EPC + RO, and hence the product design and the vertical structure of the industry began to break-apart.

Modularisation of distribution/advice components

In the early to mid-1980s financial services products, including pensions, were primarily sold by advisors who were directly owned by an insurance company – another facet of vertical integration. As one respondent recalled, *"at that time direct sales forces were common, so you were looking at something much more vertically integrated. It was expensive to build but you got all of the business"*. Distribution and advice moved across firm boundaries in the late-80s and early-90s for both w*ith-profits and unit-linked insurance companies* simultaneously. Prior to depolarisation and the enforcement of regulatory 'standards' for the provision of financial advice set out in the Financial Services Act 1986, interviews suggest that insurance companies held strong productive capabilities for the provision of advice through directly-owned advisors. However, the depolarisation and regulatory 'standards' had two main impacts. First, regulation embodied in the Financial Services Act 1986 significantly increased the bureaucratic/production costs associated with internal management of the activity due to the compliance and monitoring costs (and later the compensation costs associated with pensions mis-selling). Second, regulatory standards codified the nature of the relationship and market contracts between insurance companies and emerging external financial advisory firms. As such, the emergence of standards - and the ensuing 'modularisation' of distribution and advice - changed the nature of the economic relationship between internal costs and external costs, such that IPC > EPC + RO, providing an efficiency-based force at the outset for market contracting and specialisation across the entire roster of industry participants.

Another key factor in the decision that led to market contracting for the provision of financial advice was the pensions mis-selling scandal that was becoming significant by the early-90s. As demand in the market grew, the context is telling: *"As consumers were being urged by Government and the industry to take accountability and control for their own personal pension provision, increasingly people were attracted to the idea of being responsible for their own futures and taking responsibility for their own financial affairs. There was also a motivation from*

consumers to participate in the stock market, every week there was a new IPO. Safe and sound with-profits investments just didn't offer the potential upside of unit-linked funds linked to the stock-market and people didn't want boring and dull. As stock markets kept on going up and up and up. So, sales people could sell on the basis of look at our equity funds – vroom! Fantastic".

The temptation for commission-led advisors to mis-sell pensions was too great and led to some unethical practice. For example, one respondent recalled: *"people were told you need a personal pension, come out of SERPS, come out of your all-singing, all-dancing, occupational scheme, where you take none of the risk, where your employer takes all the risk, you have none of the downside, you're gilt-edged pension with inflation-linking for the rest of your life, you don't want that, you want a personal pension where you're in control of it'. That's what was said effectively".* Another respondent recalls the sales environment in the late-80s: *"the internal sales force were coming in trying to learn the basics of the new unit-linked pensions product. I can remember quite a lot of pressure coming down from above to get those people through those tests, no matter how you do it to get them on the road, because there was money to be made from people selling these products! That's the kind of market it was in those days".* This recipe for mis-selling activity, and the increased costs of compliance, monitoring and consumer compensation led insurance companies to downsize or eliminate their directly owned advisors from the late-80s to the mid-90s, and market contract for advisory services with the new and quickly-growing independent financial intermediary firms (IFAs) who had entered the industry (ironically often the tied advisors who had been laid off). The motivation for insurance companies to outsource advisory services to IFAs, however, was compelling. As one respondent remembers: *"In the personal pensions market, there were a lot of high commissions, a lot of scandals – people going to jail, it was a very cut-throat business, and it was a scandal that ultimately cost the industry 50 billion pounds of compensation. Companies completely disappeared. The compensation was so great that they just went under. It was a terrible mess and a lot of the sales people were villains basically".* Pensions mis-selling was, therefore, one of the key factors that led insurance companies to review their governance and ownership of advisory activities and following the regulatory standards set out in the Financial Services Act 1986 began to outsource at pace the activity to IFAs who, under the regulations, were held directly accountable to the regulator for advice.

Concluding remarks

The Thatcherite deregulation agenda of the mid-to-late 1980s was a pivotal and critical change period in the UK financial services industry, and the pensions systems hierarchy in particular. The landmark Financial Services Act 1986, a cornerstone of the Thatcherite deregulation agenda, enabled a new personal pension regime and ultimately transferred much of the obligation for pension provision from the state to the corporate sector and the consumer. While the agenda was heavily politicised, the consequences for industry structure and architectural choices of product design had long-lasting consequences which are arguably being still felt today. Moreover, regulation in the decade that followed, such as the Stakeholder regime in 1997-2001 and pensions simplification agenda in 2006 led by the then Labour government can all be interpreted as further 'sedimentary layering' by successive governments to better regulate the industry and ensure more choice to consumers – and this often embedded and motivated further modularity in the pensions system. For example, the pensions simplification agenda in 2006 is a further critical change point that, at the stroke of a pen reduced market entry barriers by relaxing capital adequacy requirements and the 'simplification' agenda harmonised all existing pension rules into a single, unifying set of rules thereby creating a 'standard' for product design. With further regulatory shocks, such as the Retail Distribution Review 2012 that banned commissions in the industry, individual pensions today are often characterised as fully open and modular (Burton, 2016).

While the Financial Services Act 1986 did not directly regulate product design, this paper shows how the Thatcherite pensions deregulation agenda created a set of regulation-led centrifugal forces that propelled the architectural choices in product design towards a more modular and componentised architecture, fuelled by a combination of selection forces and demand-side characteristics. The dominant design of the 'non-modular' with-profits pension design that had dominated the industry from the 1970's to the mid to late-1980s gave way to a more modular and componentised dominant design, the 'unit-linked pension' by the

early-1990s, with much more 'plug and play' variety in terms of investment components. Regulatory standards was a key enabler in this transition phase.

The increasing modularisation of individual pension products in this market provides further support for the body of scholarly work that has examined modularisation processes in a number of different empirical settings (ie, Funk, 2008; Galvin & Morkel, 2001; MacDuffie, 2013). However, this paper makes a contribution to the literature by examining the role of regulation in the modularisation process. Many prior empirical studies in the modularity tradition have examined emergent standards or standards negotiated by standard setting organisations (such as the DVD forum or ISO initiatives) as a key enabler in driving modularisation (Galvin & Rice, 2008; Schilling, 2000). In contrast, this paper has shown how enforced regulatory standards may also enable modularisation – a key gap in the literature.

From an industry change perspective, we also show how modularisation at the product level of the pensions systems hierarchy is connected to the breaking apart of the industry structure. In our case, the integrated vertical scope of the industry was undermined by the exogenous shocks of the deregulation era. The modularisation of the pensions product was accompanied by the fragmentation of the vertical scope of the industry – further evidence to support the idea of a 'mirroring hypothesis' between the architecture of products and organisations (Sanchez and Mahoney, 1996; MacCormack, Baldwin & Rusnak, 2012). In the management/organisation literature, empirical studies of the supply and demand-side processes that enable fragmentation of industries is nothing new (for example, see Cacciatori & Jacobides, 2005; Christense, Verlinden & Westerman, 2002; Jacobides, Knusden & Augier, 2006; Schilling and Steensma, 2001). However, in this paper we show how fragmentation of an industry structure is not uniform across the value chain and that some firms may embrace industry fragmentation, while other firms may strongly resist such modularising forces. Seen through a capabilities lens and transaction costs, we show that new entrant unit-linked insurance companies embraced industry fragmentation, owing to a comparative dis-advantage of productive capabilities in fund management, whereas

incumbent with-profits insurance companies strongly resisted such fragmentation – at least for a while – highlighting the difficulties for incumbent firms of reacting to an architectural shift in the prior dominance of a product design (ie, see Henderson and Clark, 1990).

The impact of deregulation on product and industry structure is shown in Figure 2.

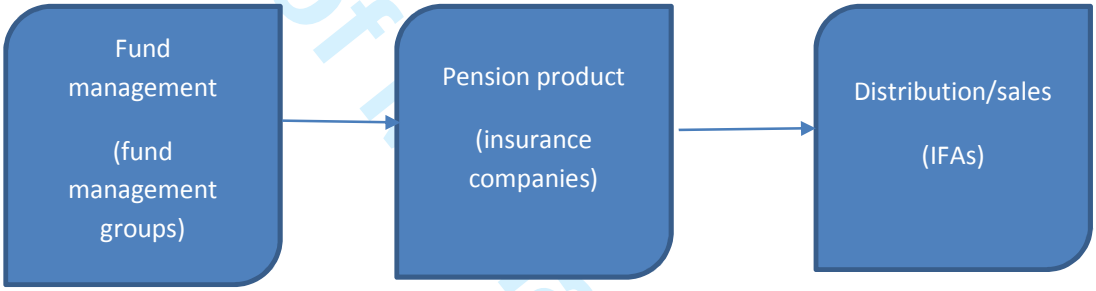

Figure 2: Simplified value chain (c mid-1990s)

Today, the individual pensions product market is characterised as fully open and modular with 'open architecture' products and a highly specialised and fragmented industry structure (Burton, 2016). The modularisation forces set in train by the Thatcherite deregulation era in the mid to late-1980s have seemed almost unstoppable. Jacobides (2005) has argued that specialisation begets further specialisation as productive capabilities become ever more specialised along a value chain. Schilling (2000) and Sanchez (2008) have similarly argued that modularisation at the product level is characterised by a set of self-reinforcing influences that promote further modularisation, despite attempts to resist. Sanchez and Mahoney (2013), for example, argue that once a key firm decides to 'go modular', the remainder are often forced to follow or risk being selected out of the industry.

This paper has shown the importance of analysing exogenous change and strategic action across time in helping us to understand the trajectory of product markets. In the UK pensions industry, the Thatcherite deregulation agenda of the mid to late-1980s had profound consequences for product design and industry structure that, by the mid-1990s,

had helped set in train a set of forces that promoted product modularisation and industry fragmentation that created new winners and losers in the market. The Thatcherite deregulation seem to be a pivotal and critical change event that provides a base sedimentary layer for our understanding of the contemporary pensions system hierarchy.

From an historical research perspective, we suggest that our methodological approach in this study is framed consistently within the ideas postulated by Lippmann and Aldrich (2014) embedding an evolutionary perspective and an even-handedness between context specificity and generalisations. Furthermore, our approach appears consistent with the suggestions offered by MacClean, et al.,(2016) in seeking dual integrity in the union between management/organisation and historical research.

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